“GOVERNANCE IN THE NIGERIAN EXTRACTIVE INDUSTRIES: FROM A HUMAN DEVELOPMENT PERSPECTIVE”

No: 04

By: Jesumiseun Oluwakemi, Adewumi

Abstract:

“3.5 billion People live in resource-rich countries. Still many are not seeing results from the extraction of their natural resources. And too often poor governance leaves citizens suffering from conflict and corruption.”

The “extractive industries” have remained a major source of revenue for many countries of the world blessed with natural resources. Africa is a resource-rich continent and the only continent in the world with regular and constant discovery of new oil fields in the past decade. Africa is endowed with enormous quantities of natural resources which include both renewable and non-renewable resources. However, despite these resources Africa has continued to remain poor, and more underdeveloped than other continents in the world, a problem that has been tagged the “resource curse.” Most African countries depend largely on foreign aid and loans to survive. Some of the factors responsible for this phenomenon include weak democratic governance, lack of transparency and accountability in the management of natural resources, corruption, political instability and incessant conflict.

This study evaluates governance in the extractive industries vis-à-vis the governance principles that are essential in the proper management of the extractive industries and its implications for national development using Nigeria as a case study. It equally investigates why the enormous resources in most developing countries are yet to translate into meaningful social and human development outcomes despite efforts made to improve governance within the EI. This study argues that it is the responsibility of the government to use the oil revenue to provide for the total well-being of her citizens and to deliver public goods to them. The government is meant to create employment, build infrastructure, and provide health care, education, electricity, security and an enabling environment for businesses to thrive. And therefore this paper considers how the extractive industry can be used or maximized to achieve not only economic growth but more importantly human development.

The opinions expressed and arguments employed herein are solely those of the authors and do not necessarily reflect the official views of the PROLAW program.

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<td>Department of Petroleum Resources</td>
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SECTION 1: GENERAL INTRODUCTION

1.1 Introduction

It is globally acknowledged that the extractive industries (EI) in developing nations have the potential and the ability to meet the development goals and poverty reduction in the world. Nonetheless, most countries with high dependence on extractive industries revenue are not able to effectively manage their resources for development outcomes.

Experience and studies carried out have shown over time that good governance and its attendant qualities such as transparency and accountability is indispensable and equally plays a significant role in a country’s use of EI revenue. Good governance is a necessary precondition for the achievement of sustainable development and also vital in the management and distribution of a nation’s natural resources.

There are several projects carried out yearly by development organizations to help developing countries improve on their governance. Several initiatives are equally being developed globally to address the issue of governance and transparency in the management of EI. Such initiatives include Extractive Industry Transparency Initiative (EITI), which is a global standard that ensures transparency of revenue from natural resources,\(^2\) Publish What You Pay, Revenue Watch Institute,\(^3\) Oxfam Transparency International,\(^4\) Global Witness,\(^5\) Global Reporting Initiative,\(^6\)

\(^2\) EITI, (July 11, 2013, 10.30am), [http://eiti.org/eiti](http://eiti.org/eiti).
\(^3\) Revenue Watch, (July 11, 2013, 10.20am), [http://www.revenuewatch.org/](http://www.revenuewatch.org/).
\(^6\) Global Reporting, (July 11, 2013, 10.00am), [https://www.globalreporting.org/](https://www.globalreporting.org/).
Alliance for Responsible Mining,\textsuperscript{7} Natural Resource Charter,\textsuperscript{8} and Transparency and Accountability Initiative.\textsuperscript{9}

Nonetheless, it appears the development challenges affecting most resource-rich countries continue to increase on a daily basis. Nigeria for instance despite her vast reservoir of natural resources especially in oil and gas and the several billions of dollars which accrue to the government from the extractive industries in terms of revenues has not achieve much human development outcomes. Nigeria has perpetually remained near the bottom of the human development index rankings in the world, with the majority of her citizens living below the poverty line of $1.25 dollars per day.\textsuperscript{10} The level of human development in the country therefore calls for serious concern and urgent action to address the situation.

Although the Nigerian government is aware of her national development challenges and has tried to put in place so many economic policies and poverty alleviation programs, these appear to have yielded little or no positive result. This is because the lack of good governance in the EI results in corruption, lack of transparency and lack of accountability. The government has also made efforts to increase the level of transparency in the management of natural resources in the country, which is evident by the country’s bold step of being the first to sign up to the EITI principles in 2004. The country has achieved some improvements with respect to the level of transparency since subscribing to the initiative. Revenue received from the EI are now published and made public. Nevertheless, a lot still needs to be done to achieve meaningful human

\textsuperscript{7} Community Mining,(July 11, 2013, 9.30am), http://communitymining.org/.
\textsuperscript{9}Transparency Initiative, (July 11, 2013, 10.40am), http://www.transparency-initiative.org/.
\textsuperscript{10} Poverty line of $1.25 dollars per day was mentioned in the report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda titled: A new global partnership: Eradicate poverty and transform Economies through sustainable Development.
development with the available revenue. After all, it has been said that citizens are the rightful owners of their resources in their country and they should enjoy the benefit.\footnote{It is ten years since the first EITI Conference, where leaders from governments, extractive companies and civil society came together and agreed the EITI Principles. They agreed that since a country's natural resources belong to all of its citizens, all citizens should be able to see benefits from them”, (July 11, 2013, 10.30am), http://eiti.org/files/EITI-progress-report-2013.pdf.}

Human development can be achieved if government can be more accountable to the people and if the revenues and benefits received from the EI are maximized, well-managed and evenly distributed and invested specifically for sustainable development purposes such as health, education, infrastructure and employment.

1.2 Purpose and scope

EI is a major source of revenue and wealth for any country, which should be properly and effectively managed so that the gains are specifically used to drive human development. The purpose of this study is to:

- Assess the existing governance quality, structure and institutional arrangement for managing the EI revenues in Nigeria.
- Find out national and international standards, best practices and initiatives that exist to improve governance within the EI and to see if this is sufficient to cause economic growth and most especially reduce poverty and improve the standard of living of Nigerian citizens.
- Identify gaps in the legal, institutional and policy framework affecting the quality of governance in the Nigerian EI which limit the benefits of the industry from achieving human development.

1.3 Aims and Objectives of the Study

The study aims to contribute to the existing knowledge on governance in the EI and specifically to assess governance in the Nigerian EI vis-à-vis the governance principles that are
essential in the proper management of the EI. The study also aims to investigate why the vast resources in the country are yet to translate into meaningful human development and to examine how revenue acquired from EI can be used for the purpose of achieving sustainable human development in Nigeria.
SECTION 2: GOVERNANCE IN THE EXTRACTIVE INDUSTRY

2.1 An overview of the Nigerian natural resources

Nigeria is rich in oil as well as gas, gold, coal, iron ore, aluminum, tin, zinc and lead. Revenue from the sale of crude oil has been the major source of Nigerian revenue. About 90% of the Nigerian government revenue is received from the extractive industries.\textsuperscript{12} Nigeria is a leading producer of oil in Africa\textsuperscript{13} and one of the top 10 oil producers in the world\textsuperscript{14}, with a maximum crude oil production capacity of 2.5 million barrels per day\textsuperscript{15} and having about 28.2 billion barrels of proven crude oil reserves and gas reserves total of 165 trillion standard cubic feet (scf).\textsuperscript{16}

Nigeria benefits significantly from the sale of oil in the global market. Since the discovery of oil in the country, Nigeria has received billions of dollars in revenue from EI. For instance, the worldwide oil boom of 1970 led the Nigerian oil revenue to rise from $1.2 billion in 1972 to $6.6 billion in 1975 and about $US25.4 billion in 1980.\textsuperscript{17} Even today, new oil fields are being discovered, particularly offshore. There are also ongoing major liquefied natural gas projects to harness the huge reserve of natural gas, which until quite recently has remained largely unutilized.

\textsuperscript{12}(July 14, 2013, 1.00pm), \url{http://www.un.org/esa/agenda21/natlinfo/countr/nigeria/natur.htm#energy}
\textsuperscript{13}Nigeria National Petroleum Corporation (NNPC) (July 14, 2013, 1.20pm), \url{http://www.nnpcgroup.com/NNPCBusiness/UpstreamVentures/OilProduction.aspx}, \url{http://www.bbc.co.uk/news/world-africa-13949550}
\textsuperscript{14}Revenue Watch (July 14, 2013, 1.05pm), \url{http://www.revenuewatch.org/countries/africa/nigeria/overview}
\textsuperscript{15}NNPC (July 14, 2013, 1.20pm), \url{http://www.nnpcgroup.com/NNPCBusiness/UpstreamVentures/OilProduction.aspx}
\textsuperscript{16}Id.
\textsuperscript{17}George Philip, \textit{The Political Economy of International Oil}, Edinburgh, Edinburgh University Press, 1994, p. 174; Sebastian Hancock, \textit{Transparency as Cure for the Resource Curse? A Nigerian Case Study} (School of Social and Political Sciences, University of Melbourne POLS40011 Political Science Thesis.)
For a very long time, petroleum activities in the industry were not known by the public as the EI were clouded in secrecy. This gave room for serious mismanagement of the resources and gross corruption which has led to public funds being in the hands of a very few private individuals to the detriment of the entire population and national development. Oil revenues are divided between the three tiers of government. The federal government gets about half of the oil revenues; the 36 state governments about a quarter; and the 774 local governments about a fifth while the rest flows into a special fund.\(^\text{18}\) The Special Fund Account was established in 2002 as an interventionist fund for the development of the solid minerals sector, ecology and other critical areas of the economy.\(^\text{19}\) However, according to investigations carried out by the Nigerian Senate Committee, the administrations of Presidents between 2002 and 2012 have spent funds from the account for unrelated purposes, about N1.04 trillion of the special funds account was said to have been misappropriated.\(^\text{20}\)

The federal government of Nigeria by virtue of Section 44(3) of the 1999 Nigerian Constitution has exclusive ownership of all mineral resources and control of all petroleum in, under, or upon any land in Nigeria. According to the constitution, the government also has the responsibility to manage these resources on behalf of the Nigerian population to their benefit and overall well-being.\(^\text{21}\)

Given that oil is a non-renewable resource and according to a World Bank report, Nigeria’s oil reserves will be depleted in 41 years, it is vital to find ways to reduce corruption and manage

\(^{18}\) Nicholas Shaxson, Nigeria’s Extractive Industries Transparency Initiative Just a Glorious Audit? (November 2009).

\(^{19}\) (June 1, 2013), http://www.africanspotlight.com/2013/05/01/obasanjo-jonathan-yaradua-illegally-withdrew-n1-04-trillion-from-special-funds-nigerian-senate/.

\(^{20}\) Id.

the resources effectively, negotiate transparent and more beneficial oil contracts that will cater for today’s needs without jeopardizing the future, reinvest the excess revenue, and use the resource for programs design to improve human development.\textsuperscript{22}

\subsection*{2.2 Governance and Development}

Governance has been widely accepted and acknowledged as an important factor in the development of any country. Generally, governance entails the process of making decisions and implementing them based on different considerations such as popular participation, respect for the rule of law, observance of human rights, transparency and accountability, free access to information, accommodation of diverse interests, equity, inclusiveness, effective results and prompt responses to human needs.\textsuperscript{23} Good governance has been defined as the exercise of political power to manage a nation’s affairs so as to secure and promote happiness, the good life, security and the welfare of the people or the public good. \textsuperscript{24} The key objective in terms of good governance is to support a safe, enabling, inclusive and sustainable environment for economic growth and development. Good leaders deliver security of the state and of the person, the rule of law, good education and health services, and a framework conducive for economic growth.\textsuperscript{25} It is effective in making the best use of resources equitably. Good governance has many attributes. It is participatory, transparent and accountable.\textsuperscript{26}

\begin{thebibliography}{99}
\bibitem{23} UNICEF, 2002; Crisis of Governance and Urban Violence in Nigeria ReadPeriodicals Articles, October 1, 2011.
\end{thebibliography}
Bad governance is definitely a major set-back to economic growth and development in Africa and especially in Nigeria. Lack of good governance militates against national development. Where there is no good governance, development becomes a mirage.\textsuperscript{27}

The governance challenge cuts across almost every sector of the country. However, good governance within the EI means the commitment on the part of the government to ensure transparency and accountability in the management and distribution of revenue received from the extraction of natural resources for economic and social development.

The EI sector is essential for growth and development in the country and thus it require good governance and proper management to be able to realize its full potential.

\textbf{2.4 Good governance principles and indicators}

The quality of governance can be measured by certain key indicators. The World Bank for instance developed a set of 6 indicators for measuring good governance in a country. These indicators are: government’s effectiveness, political stability and absence of violence, control of corruption, voice and accountability, rule of law, regulatory control. Some other organizations also listed transparency as one of the qualities of good governance. However for the purpose of examining governance within the EI, the core principles that will be look at include transparency, accountability, control of corruption, and the rule of law.

These principles will be examined below to assess the quality of governance in the oil and gas sector in Nigeria.

2.4.1 Transparency

“...citizens are the rightful owners of the natural resources in their countries; they need to be better connected about the revenues derived from their resources and there use...”

The International Monetary Fund (IMF) has defined transparency as “openness, honesty and accountability in public and private transactions”. Resource transparency is said to be the application of transparency to the management of resource wealth. It implies the public disclosure of necessary, reliable and accessible information about all the activities and processes involved in the natural resource wealth management chain from discovery and exploitation, to the revenue collection and expenditure.

Natural resource wealth is easily susceptible to rent-seeking and corruption due to high level secrecy within the industry and high dependency on natural resource wealth as government revenue for most resource-rich nations. This occurs mostly because of information asymmetry that exists between the people and the few individuals saddled with the responsibility to manage natural resource wealth. Resource transparency therefore enhances the availability of information to interested parties and empowers them to demand accountability and a fair distribution and responsible use of resource revenue.

Since the inception of the Extractive Industry Transparency Initiatives (EITI) globally and the operation of the Nigerian version of it called Nigerian Extractive Industry Transparency

28 International Monetary Fund


Initiatives (NEITI), there has been improvement with respect to transparency in the EI in the
country, and citizens are now more informed about the industry compared to in the past even
though a lot is still required to be done to ensure the revenue translates into sustainable human and
national development.

2.4.2 Accountability

For any country to succeed in its development agenda, it must be accountable to its citizens.
According to a statement credited to Marcia V.J. Kran\textsuperscript{31} “Governance is not just about ensuring
that a country’s administration functions smoothly. It is also about how people can review what
those in power do and how they can hold the powerful to account if something goes wrong.
Accountability is the core of governance. If there is no accountability, governance is an empty
concept,”

Accordingly, unless public officials can be held to accountable, critical benefits associated
with good governance such as social justice, poverty reduction, and development will remain
elusive. The nation’s leaders must be forced to be accountable to the electorate and the nation.\textsuperscript{32}
On the Worldwide Governance Indicators for the year 2011 Nigeria had a 28% rank on voice and
accountability\textsuperscript{33}. It is well known that revenues from the petroleum industry and other natural
resources in form of taxes, royalties, signature bonuses, and other payments are important engines
for economic growth and social development in developing countries. However, lack of
accountability and transparency in these revenues can exacerbate poor governance and lead to
corruption, conflict, and abject poverty. This is essentially what happened to Nigeria, a developing

\textsuperscript{31} The Director of the Research and Right to Development Division of the UN Human Rights Office,

\textsuperscript{32} Malena and McNeil, (2010); Sunday Tunde Akindele, Oluwatobi Ojo Adeyemi & Oluwakemi Ajibike Aluko
Democracy, Governance, Legislative Challenges and Impediments in Nigeria.

country that is rich in oil and gas resources. Where accountability is low or poor, corruption is inevitable and most able to thrive. Increasing transparency and informed knowledge about revenues received from EI will empower citizens and institutions to hold governments accountable and to demand that government spends revenue exclusively for sustainable developmental purposes.

2.4.3 Corruption

“Corruption and accelerated economic growth and development are strange bed fellows; they just don’t go together.”

The quotation above sums up the relationship between corruption and development, indeed where there is corruption, development is far. As noted by former President of Nigeria, General Olusegun Obasanjo, ‘corruption is the greatest single bane of our society today’.

The term corruption has been defined as “the abuse of entrusted power for private gain.” Corruption has many adverse effects and it weakens the development of countries. The African Union Convention on Preventing and Combating Corruption in its preamble acknowledged the negative effects of corruption and impunity on the political, economic, social and cultural stability of African states and its devastating effects on the economic and social development. According to the same report, corruption also undermines accountability and transparency in the management of public affairs as well as socio-economic development on the continent. While linking corruption to the crisis of underdevelopment, Kenneth (2000) posited thus: “Corruption has led to bad roads and decaying infrastructure, inadequate medical services, poor schools and failing

34 Hillary Benn, a Former British Secretary of State for International Development.
education standards and disappearance of foreign aid and loans and of entire project without trace”\(^\text{38}\)

Nigeria has always had a reputation of being corrupt. Corruption has entered into every fabric of existing systems in the country. According to the Transparency International Corruption Perceptions Index 2012,\(^\text{39}\) Nigeria ranked 139 out of 174 countries with a very low score of 27 out of 100, although this shows some improvement compared to when Nigeria was rated as the second most corrupt country in the world in the year 2000. Nevertheless the level of corruption still in the country cannot be said to be satisfactory, and there is still a long way to go to eradicate corruption in the country.

The effect of corruption on the Nigerian economy is grave; corruption is in virtually all the sectors of the country; however the level of corruption in the EI is the worst, as it includes high profile embezzlement of funds, misuse of natural resources and revenues generated from it thereby limiting the benefit and potentials of the resources for sustainable development. As one commentator put it, “corruption is mainly the reason why about $400 Billion realized from the sale of oil in Nigeria since 1958 has resulted in a few hundred millionaires and millions of starving and sick citizens”\(^\text{40}\) which suggests that, “…the poor are the ultimate victims of corruption”\(^\text{41}\). There


is a high correlation between corruption, poor governance and high incidence of poverty.\textsuperscript{42} Corruption engenders the poor enthronement of bad and corrupt political leadership, poor governance, ineffective administration, and pauperization of the people. It diverts scarce resources into private pockets and this undermines effective governance, hinders democracy and erodes the social and moral fabric of the nation.\textsuperscript{43}

The Nigerian government through the ‘politics of sharing oil revenue’\textsuperscript{44} has become the fastest and cheapest means of making quick money. This ‘politics of sharing’ has given room for unnecessary struggle for power leading to political instability,\textsuperscript{45} diverting resources from the poor to the rich and increasing the cost of running government.\textsuperscript{46}

The Nigerian oil and gas sector has undeniably ‘enriched the military, political and administrative elite, and has spurred corruption and resulted in the loss of credibility of public institutions in the eyes of many Nigerian households and companies’ to the detriment of development of the nation.\textsuperscript{47} For instance, during the military era, Babangida, one of the military dictators who has been widely accused of institutionalizing corruption as a tool of political control in Nigeria, embezzled as much as US$12.2 billion in oil revenues under his watch.\textsuperscript{48} Also, the last

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\textsuperscript{43} Opeyemi Bamidele (2012), \textit{Supra}.
\textsuperscript{44} The oil and gas revenue is usually referred to as ‘national cake’ and the ‘politics of sharing’ involves the process through which the political elite take their share from the ‘national cake’. In other words, embezzle public funds for their personal gains.
\textsuperscript{46} Opeyemi Bamidele (2012), \textit{Supra}.
\textsuperscript{48} International Crisis Group, \textit{“Want in the Midst of Plenty.”} Africa Report No. 113, July 19, 2006,
\end{footnotesize}

\end{flushleft}
military leader, Sani Abacha, looted the Nigerian state of an estimated sum of USD 4 billion.\textsuperscript{49} There is no doubt that corruption has been a major challenge militating against development in the country. In 2007 Human Rights Watch estimated that the endemic nature of corruption in Nigeria led to the loss of USD 380 billion between independence in 1960 and 1999, when democratic elections were first held.\textsuperscript{50} A more recent example of corruption in the Nigerian EI under a civilian administration is a fuel subsidy scam said to have cost the country about $ 6.8 bn. Farouk Lawan, a member of the House of Representatives who chaired the committee that produced the report, was alleged to have collected the sum of $500,000 of a $3m bribe solicited from an oil tycoon to drop his company from the investigation. Another member of the fuel subsidy committee, Emenalo Boniface, was equally accused of accepting $120,000 of the $3m bribe solicited from the oil tycoon\textsuperscript{51}

The level of oil-related corruption in Nigeria would be impossible if there were a modicum of transparency and accountability in the EI.\textsuperscript{52} Corruption is not limited to Nigeria alone; it is a global problem confronting many nations of the world, though to various degrees. The United Nation Convention against Corruption (UNCAC) states that ‘the evil phenomenon is found in all countries; big and small, rich and poor, but that it is in the developing world that its effects are most destructive’. It states further that corruption undermines democracy and the rule of law, leads to violation of human rights, distorts markets, erodes the quality of life and allows organized crime, terrorism and other threats to human security to flourish.\textsuperscript{53}

\textsuperscript{49} Human Right Watch, \texttt{http://www.hrw.org/sites/default/files/reports/nigeria1007webwcover_0.pdf} ; Business Anti-Corruption portal, \texttt{http://www.business-anti-corruption.com/en/about/what-is-corruption/}.
\textsuperscript{50} Human Right Watch, supra; Business Anti-Corruption portal, supra.
\textsuperscript{51} BBC News Africa, \texttt{http://www.bbc.co.uk/news/world-africa-21294154}.
\textsuperscript{52} Ascher (1999); Michael Uchenna Uzoigwe, ‘Exploring Multi-Stakeholder Initiatives for Natural Resource Governance the Example of the Nigerian Extractive Industries Transparency Initiatives (NEITI).’ A Thesis submitted to the University of Birmingham for the Degree of Doctor of Philosophy September, 2011.
\textsuperscript{53} UNCAC publication, available at \texttt{http://www.unodc.org/documents/treaties/UNCAC/Publications/Convention/08-50026_E.pdf}.
The Nigerian government since 1999 has been trying her best to fight corruption although fighting corruption in Nigeria is like ‘fighting the wind’. Several anti-corruption agencies have been established to help fight the war against corruption. This includes the Economic and Financial Crimes Commission, the Independent Corrupt Practices and Other Related Offences Commission, the Technical Unit on Governance & Anti-Corruption Reforms, and the Code of Conduct Bureau. The Nigerian legal framework to fight corruption is also almost exhaustive; however this has not produced much result in the eradication of corruption in the country. Some of the national laws on anti-corruption include the Corrupt Practices and Other Related Offences Act 2004, the Money Laundering (Prohibition) Act 2004, the Advance Fee Fraud and other Related Offences Act 2006, and the 1999 Nigerian constitution. International and regional anti-corruption instruments which Nigeria has ratified include UNCAC, the United Nations Convention against Transnational Organized Crime, and the African Union Convention on Preventing and Combating Corruption.

According to the Global Integrity 2008 report, the Nigerian legal framework for fighting corruption is ‘very strong’. Nigeria scored 79 out of a total of 100. However, implementation and law enforcement is described as moderate with a score of 48 out of 100 with a very wide implementation gap of 31. Some of the reasons proffered for this include government interference with public law enforcement agencies, vague and ineffective regulations governing the acceptance of gifts for public officials, and ineffective conflict of interest regulations, among others.\textsuperscript{54} It also appears Nigeria has a way of by-passing laws, and sometimes the political will of the government to actually deal with the monster called corruption can be questioned. An author succinctly put it thus:

\begin{quote}
\textsuperscript{54} Global Integrity Report, \url{http://report.globalintegrity.org/Nigeria/2008}.
\end{quote}
Political will is undoubtedly a critical factor in the fight against corruption and the promotion of good governance. [ ] political will transcends grand speeches. Political will incorporates leading by example and taking prompt and firm action where corruption is detected and supporting law enforcement agencies when they do their work in this regard.

It is also a widely held view, that the government is not serious and sincere about the war against corruption. According to Farida Waziri, the former Chairman of the EFCC, Nigeria;

*The war against corruption like terrorism is a special kind of war. It admits of no conventional methods. It is a war against human selfishness and greed. It is a war against rapid and senseless primitive capital accumulation. It is a war against decadence of mind, ethics and morals. Because of these special characteristics of the war, it requires a strong and uncompromising political will. It must be approached holistically. Casual and superficial approaches will not work. Rhetoric must match concrete action. Like all wars on salvation and restoration, friends will be hurt; families and associates will equally be hurt. And above all, politics have no place in the war.*

If Nigeria will indeed win her war against corruption, then it must be ready to take proactive action to address the issue of corruption as a way out of poverty and underdevelopment by doing the following, among other things: adhere strictly to the observance of rule of law, improve implementation and enforcement mechanisms, increase transparency and accountability

55 Thuli Madonzela, supra.

in the oil and gas industry activities, avoid political interference in the undertakings of the anti-corruption agencies, and provide adequate funding to these agencies to operate freely within the scope and ambit of the law. Also, ‘the salary and benefit regimes in the public service should be enhanced so that people can live by their wages’\(^{57}\) thereby making corruption less attractive.

### 2.4.4 Rule of law

The rule of law according to the Secretary-General of the United Nations is “a principle of governance in which all person, institutions and entities, public and private, including the State itself, are accountable to laws that are publicly promulgated, equally enforced and independently adjudicated, and which are consistent with international human rights norms and standards.”\(^{58}\) Law itself can be defined as a set of rules, regulations and standards that guide the conduct, behavior and activities of people in a society or country for an orderly economic, social and national development.

The concept of rule of law has been said to have existed several centuries ago. Aristotle was quoted as saying “the rule of law is better than that of any individual”\(^{59}\) and that “Law should govern” while Plato was also quoted to have said ‘where the law is subject to some other authority and has none of its own, the collapse of the state, in my view, is not far off; but if law is the master of the government and the government is its slave, then the situation is full of promise and men enjoy all the blessings that the gods shower on a state.’\(^{60}\) The modern conception of the rule of law has developed as a concept distinct from the “rule of man”, involving a system of governance

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based on non-arbitrary rules as opposed to one based on the power and whim of an absolute ruler. The rule of law has made great contribution to human existence in its capacity to hold governments legally accountable.\(^{61}\)

The rule of law aims to correct abuses of power by insisting on a particular mode of exercise of political power, which is governance through the law.\(^{62}\) In other words, the rule of law presupposes that government can act only through legal rules and that law checks the power of government.\(^{63}\)

The rule of law is not only important to governance, but equally to economic growth and development. Government’s respect for the rule of law can advance national development. Law or the rule of law itself is meaningless if it does not foster the greatest happiness of the greatest number of any group of people in practical terms in the areas of education, health care delivery, transportation, old age care, employment opportunities, security of lives and property.\(^{64}\) According to William H. Neukom,\(^{65}\) “The rule of law is the foundation for communities of opportunity and equity; it is the predicate for the eradication of poverty, violence, corruption, pandemics, and other threats to civil society.” The World Justice Project views the rule of law has a system in which the following four universal principles are upheld:\(^{66}\)

1. The government and its officials and agents are accountable under the law.

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\(^{64}\) Wole Olanipekun, SAN, *Assault on the Rule of Law: A Veritable Threat to Democracy*.

\(^{65}\) William H. Neukom is the Founder, President and CEO of the World Justice Project

2. The laws are clear, publicized, stable and fair, and protect fundamental rights, including the security of persons and property.

3. The process by which the laws are enacted, administered, and enforced is accessible, efficient, and fair.

4. Justice is delivered by competent, ethical, and independent representatives and neutrals that are of sufficient number, have adequate resources, and reflect the makeup of the communities they serve.

Quite a lot of economists and legal scholars, international organizations and development agencies such as Max Weber, Douglas North, Friedrich Hayek, Thomas Carothers, the WBG and IMF, to mention a few, have claimed that rule of law is indispensable for economic growth and development. They maintained that rule of law protects property rights, enforces legal rules and contract rights and provides the necessary predictability, certainty, and security to investment and trade. Indeed, law has the capacity to eliminate obstacles to economic opportunity and mobility, to democratic participation, and to alleviate extremes of poverty, inequality and insecurity. Without the rule of law, the government’s many involvements in the economy regulatory mechanisms, tax systems, customs structures, monetary and economic policy, and the like would be unfair, inefficient, and opaque. The rule of law is therefore considered essential for long-term and sustainable human development and a vehicle for advancing economic growth and development. As such, the rule of law has become one of the key indicators used to determine the quality of governance in a country.

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67 Micheal Opeyemi Bamidele (MOB) supra.
68 Thomas Carothers, “The Rule-of-Law Revival”
69 S. Golub, Beyond Rule of Law Orthodoxy: The Legal Empowerment Alternative Rule of Law Series, available at www.ceip.org/pubs
There are however scholars who have equally criticized the importance of law to development. They claim that development is not predicated on the rule of law nor is development a function of the rule of law. Their argument is usually based on the Asian miraculous economic development in spite of the absence of the rule of law.

The rule of law is definitely indispensable for sustainable development; government should respect the law at all times especially in a developing country such as Nigeria. It is trite that where law is faithfully observed, and the rule of law exists, societies enjoy greater benefits by comparison than to those who do not. Rule of law is as such considered by many as the most important among the numerous values and the principle of governance.70

The Nigerian government is known for flagrant disregard and disrespect of the rule of law despite the importance of law as enunciated above. This fact is obvious from Nigerian rankings on the 2012 World Justice Project Rule of Law Index shown below. The Nigerian ranking on the Rule of Law Index is nothing to be proud of. In most dimensions of the rule of law considered on the index, Nigeria ranks near the bottom half of lower middle-income countries.

**The World Justice Project Rule of Law Index**71

### Nigeria Ranking

<table>
<thead>
<tr>
<th>Factors</th>
<th>Scores</th>
<th>Global Rankings</th>
<th>Regional Rankings</th>
<th>Income Group Rankings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited Government</td>
<td>0.45</td>
<td>74/97</td>
<td>11/18</td>
<td>15/23</td>
</tr>
</tbody>
</table>

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70 Micheal Opeyemi Bamidele (MOB), supra.
<table>
<thead>
<tr>
<th>Category</th>
<th>Score</th>
<th>Rank/Total</th>
<th>Rank/Region</th>
<th>Rank/Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absence of Corruption</td>
<td>0.25</td>
<td>95/97</td>
<td>17/18</td>
<td>21/23</td>
</tr>
<tr>
<td>Order and Security</td>
<td>0.47</td>
<td>94/97</td>
<td>18/18</td>
<td>21/23</td>
</tr>
<tr>
<td>Fundamental Rights</td>
<td>0.45</td>
<td>85/97</td>
<td>13/18</td>
<td>18/23</td>
</tr>
<tr>
<td>Open Government</td>
<td>0.35</td>
<td>90/97</td>
<td>14/18</td>
<td>19/23</td>
</tr>
<tr>
<td>Regulatory</td>
<td>0.42</td>
<td>78/97</td>
<td>10/18</td>
<td>15/23</td>
</tr>
<tr>
<td>Civil Justice</td>
<td>0.53</td>
<td>53/97</td>
<td>9/18</td>
<td>4/23</td>
</tr>
<tr>
<td>Criminal Justice</td>
<td>0.28</td>
<td>94/97</td>
<td>18/18</td>
<td>21/23</td>
</tr>
</tbody>
</table>

Checks on the executive branch as noted above are relatively weak, ranking seventy-fourth, and corruption is endemic, ranking ninety-fifth. The country is afflicted with civil conflict and political violence. Crime and vigilante justice are serious problems, ranking ninety-fourth, as is the performance of the criminal justice system, ranked ninety-fourth overall and last in the region. Nigeria’s best performance in this region is in the area of civil justice, where it ranks fifty-third globally and fourth among its income peers.

The rule of law is a must for a country like Nigeria; the Nigerian government should therefore strive to improve its observance of the law in order to achieve the desired level of development in the country.

2.5 Development aid towards improving governance in the Extractive Industry

Most international development organizations provide support in the form of technical and financial assistance to developing countries to maximize the economic benefits from their EI for sustainable development. These supports are usually provided to governments and their agencies, non-governmental organizations (NGOs), civil society organizations (CSOs), and the private sector. Financial institutions and international organizations such as the IMF, World Bank Group (WBG), UNDP, African Development Bank (AFDB) and United Kingdom’s Department for
International Development (DFID) have governance as one of their central focus in their development work. This is because the quality of governance has been regarded as a key factor influencing the ability of countries to use EI revenues for development. As such, donors and recipient governments have put increasing emphasis on the need to build capacity for improving EI-related governance.\textsuperscript{72}

The WBG for instance supports the development of governance within the EI sectors in a number of ways. One way is by helping governments attract more sectoral investment. This is done by helping governments revise their fiscal and legislative frameworks to create an investment-friendly business environment. The Bank works with governments to help them manage the risks of projects, supporting revisions to laws and the strengthening of institutional capacity to manage environmental, health, and safety risks. The Bank also works with governments to help them maximize the benefits of the EI sector, supporting reforms for better revenue collection, increased productivity, and better public financial management.\textsuperscript{73}

The World Bank administered a Multi-Donor Trust Fund (MDTF) which is supported by 15 development agencies and provides the financial and technical support to EITI processes in 35 countries around the world.

A survey of donor-funded assistance to governance of the extractive industries in Africa found the World Bank to be the largest donor of EI governance-related assistance of US$162.8 million which is about 70\% of the survey total. According to the survey, Nigeria was also found to


\textsuperscript{73}M.A. Thomas, Evaluation of The World Bank Group’s Activities in the Extractive Industries Factoring in Governance, Background Paper September 1, 2004, OED report.
be the main recipient of EI governance-related assistance receiving about 30% of the expenditure commitment total.\(^4\)

### 2.6 International best practices in the extractive industries

There are several initiatives designed to assist in improving governance within the EI sector. Some of these initiatives include the following:

#### 2.6.1 Extractive Industries Transparency Initiative (EITI)

The EITI is a voluntary standard that is globally developed to promote revenue transparency around countries' oil, gas and mineral resources.\(^5\) The initiative has been called ‘one of the centerpieces of global efforts to tackle the “resource curse” and translate natural resource wealth into genuine development for producing countries’.\(^6\)

The EITI urges governments, extractive companies, international agencies, NGOs, CSOs and other relevant stakeholders with interests in the EI to work together to develop a framework to promote transparency of payments and revenues from the industry. The initiative was launched by the former Prime Minister of the United Kingdom, Tony Blair, in September 2002 at the World Summit on Sustainable Development and took off in June 2003. The initiative specifically aims to improve accountability in the EI by encouraging transparency in the payment and receipt of revenue from the industries and in general promoting good governance in the EI. The EI companies

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\(^4\) Governance of the Extractive Industries in Africa: Survey of Donor-Funded Assistance, supra

\(^5\) EITI Progress Report 2013 beyond transparency, (For the purpose of the EITI, revenues are defined as all material revenues received by governments from oil, gas and mining companies. (Extractive Industries Transparency Initiative Source book, OpenOil Online Curriculum: Governance: EITI ), [http://www.eiti.org/](http://www.eiti.org/).

disclose payment; the government discloses receipt of payment while EITI report payments that are independently verified and reconciled.

The EITI process is driven by multi-stakeholder groups (MSGs) involving governments, companies, civil society, investors and international organizations. The EITI is governed by a board with representatives of all the relevant stakeholders and supported by EITI International Secretariat. The EITI helps to promote international development principles such as country or local ownership, consultation and participation. At the national level, the EITI is a government-led initiative involving the participation of other stakeholders.77

The EITI Standard establishes the methodology that implementing countries need to follow to become fully compliant with the EITI. EITI is guided by 12 principles and 7 requirements. Implementing countries are required to adhere to the EITI principles and requirements, but are also encouraged to go beyond these minimum requirements where appropriate.78

There are two groups of implementing countries: EITI Candidate and EITI Compliant. EITI Candidature is a temporary status expected to lead to compliance with the EITI Standard within a stipulated period. To apply for EITI candidacy requires taking some sign-up steps. The sign-up steps require the government to issue a public statement expressing its intention to implement the EITI. Thereafter government is also expected to appoint senior individual to lead the EITI implementation process. The government is also required to commit to work with CSO and companies, and establish a multi-stakeholder group to oversee the implementation of the EITI. The multi-stakeholder group are expected to maintain a current workplan, fully costed and aligned with

77A stakeholder is defined as an individual, community, group or organisation with an interest in the outcome of the EITI, including both those who are affected by it (positively or negatively) and those who are able to influence it (in a positive or negative way). (Extractive Industries Transparency Initiative Source book, OpenOil Online Curriculum: Governance: EITI,)

the reporting and Validation deadlines established by the EITI Board. When a country has completed these sign-up steps and wishes to be recognised as an EITI Candidate, the government, with the support of the multi-stakeholder group will submit an EITI Candidature Application to the EITI Board, using the prescribed application form. The EITI Board will review the application and make decisions on admitting an EITI Candidate country.

Upon becoming an EITI candidate, the implementing country it is expected to comply with the minimum EITI requirements to become EITI compliant as listed below.

The EITI requires:

1. Effective oversight by the multi-stakeholder group.
2. Timely publication of EITI Reports.
3. EITI Reports that include contextual information about the extractive industries.
4. The production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues, and disclosure of all material payments to government by oil, gas and mining companies.
5. A credible assurance process applying international standards.
6. EITI Reports that are comprehensible, actively promoted, publicly accessible, and contribute to public debate.
7. The multi-stakeholder groups to take steps to act on lessons learned and review the outcomes and impact of EITI implementation.

The next stage is the validation exercise. Validation is an essential feature of the EITI process. It serves to assess performance and promotes dialogue and learning at the country level.

\[79\text{id.}\]

\[80\text{id.}\]
The validation is to be undertaken by an independent evaluator procured by the EITI International Secretariat. The validation is intended to provide all stakeholders with an impartial assessment of whether EITI implementation in a country is consistent with the EITI Standard. A Validation report will be issued and the report will also address the impact of the EITI, lessons learnt in EITI implementation, as well as any concerns stakeholders have expressed and recommendations for future implementation of the EITI. EITI Candidate countries are required to commence Validation within two and a half years of their candidacy. A complete validation exercise confers a ‘compliant status’ on an implementing country, which will be reviewed periodically. ‘Compliant countries [are expected to] maintain adherence to all the requirements in order to retain compliant status’. 

**Nigerian NEITI**

In February 2004, Nigeria became the first country to voluntarily sign up for the EITI principles under the leadership of former President Olusegun Obasanjo. The Nigerian EITI is called Nigerian Extractive Industries Transparency Initiatives (NEITI). NEITI established the National Stakeholders Working Group comprising government representatives, civil society and oil companies to oversee the activities and effective implementation of NEITI in the country.

NEITI is mandated by law to promote transparency and accountability in the management of Nigeria’s oil, gas and mining revenues. NEITI is also mandated to promote due process and transparency in extractive revenues paid to and received by the government and to ensure

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81 *Id.*

82 Being Compliant means that the country has a working process for ensuring the required levels of transparency in their natural resource sector, and a platform for discussing how transparency and accountability in the sector should be further improved. (EITI Progress Report 2013 beyond transparency).

83 Currently, EITI Compliant countries are required to undertake Validation every three years. The EITI Standard, supra.

84 Extractive Industries Transparency Initiative (EITI), supra.
transparency and accountability in the application of extractive revenues. To give legal backing to the work of NEITI, a Bill was introduced in the National Assembly in December 2004. The NEITI Bill was eventually passed and harmonized by the two chambers of the National Assembly and subsequently signed into law by former President Olusegun Obasanjo on May 28, 2007. With this, Nigeria became the first EITI-implementing country with a statutory backing for its operations.85

One important function of NEITI is to carry out an independent regular audit of the EI in the country and give the public a report thereafter. The objective of the audit is to verify and reconcile the amount of payments extractive companies disclose and the amount of payment received by the government. This payment includes tax and royalties of resources.

Nigeria has taken the EITI implementation to areas not yet contemplated by the global EITI. An EITI expert testifies that: “The goals of NEITI far exceed the criteria mandated by EITI. Nigeria has taken the transparency initiative to a new level by expanding the program to audit the physical flow of hydrocarbons and by taking a holistic approach to examining the energy sector, investigating government agencies in addition to private and state owned companies”.86

Nigeria has been disclosing revenue received from her natural resources since the establishment of NEITI, leading to an increased level of transparency. However, it is doubtful whether EITI focus on resource transparency, can bring about the desired level of development. Some scholars have criticized the initiative on this basis.

In reality, NEITI has improved the level of transparency. According to a study carried out on the Nigerian NEITI, it was stated that Nigeria is regularly disclosing oil revenues; however, translating that added transparency into greater accountability is the next step. As noted by an

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86 Goldwyn, 2006; Michael Uchenna Uzoigwe, supra.
author, ‘[S]o far it is hard to see how better transparency has led [ ] to better governance in Nigeria’ or ‘... to demonstrate that better transparency has led to better developmental outcomes [in Nigeria]’.  

Indeed that there is transparency in EI revenue may mean very little to an average Nigerian who is not educated, poor, unemployed, sick, and homeless or who slept in hunger the previous night.

Nonetheless, it cannot be said that revenue transparency is less important; it is important and equally a starting point to hold government accountable. The EITI principles should not just stop at ensuring resource transparency alone with respect to payment for resources even though it is a positive step in the right direction but should go beyond that to ensure government use revenues in a meaningful way for human development.

### 2.6.2 Publish What You Pay

Publish What You Pay (PWYP) is a global network of CSOs launched in 2002 with a campaign calling for extractive companies to publish what they paid to governments. The coalition aims for a world where all citizens benefit from their natural resources through an open and accountable extractive industry. The PWYP now have widened objectives to cover transparency and accountability at all points in the value chain. Nigeria is one of the countries in Africa where the PWYP works. Members are expected to adhere to the PWYP principles and standard which are;

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87 Nicholas Shaxson, supra.

88 Publish What You Pay, [http://www.publishwhatyoupay.org](http://www.publishwhatyoupay.org)
a. Publish Why You Pay and How You Extract

b. Publish What You Pay

c. Publish What You Earn and How You Spend

### 2.6.3 Revenue Watch Institute

The Revenue Watch Institute is a non-profit policy institute and grant making organization that promotes an effective, transparent and accountable management of oil, gas and mineral resources for the public good. The RGI is based on the premise that good governance of natural resources is necessary for the successful development of countries with abundant natural resources. They help resource-rich countries realize the development benefits of their natural resource wealth through capacity building, technical assistance, research and advocacy. The RWI also publishes the Resource Governance Index (RGI) in about 58 countries by measuring the quality of governance in the oil, gas and mining sector. The RGI evaluates four key components of resource governance in each of these countries which are; Institutional and Legal Setting; Reporting Practices; Safeguards and Quality Controls; and Enabling Environment. In the 2013 RGI, the report shows striking governance deficit in natural resource governance in the world with about 80% of resource-rich countries unable to achieve good governance in the extractive sector.

Nigeria performance on the RGI is very weak with a composite score of 42 out of 100, ranking 40th out of 58 countries. Nigeria ranks high in ‘Institutional and Legal Setting’ with a 66 score and extremely low in contrast in ‘Enabling Environment’ with a score of 18.

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89 Available at http://www.revenuewatch.org/


92 Available at http://www.revenuewatch.org/sites/default/files/countrypdfs/nigeriaRGI2013.pdf
2.6.4 Natural Resource Charter\textsuperscript{93}

The Natural Resource Charter is a global initiative designed to help governments and societies address the challenges of resource extraction, improve governance of natural resource management and effectively harness the opportunities created by extractive resources for development purposes. The Natural Resource Charter is organized around twelve core Precepts that offer guidance on key decisions governments face in determining whether to extract resources and how generated revenue can produce maximum good for a country’s citizens.\textsuperscript{94} The Charter provides general principles around which natural resource management institutions can be designed and measured against and also tools and knowledge necessary for resource-rich countries to avoid the mismanagement of diminishing natural riches and ensure sustainable development.\textsuperscript{95}

The first precept of the NRC provides that the development of a country’s natural resources should be designed to secure the greatest social and economic benefit for its people and that governments owning this natural resources have the responsibility to manage those resources for the benefit of current and future citizens through alleviation of poverty and generation of sustainable economic growth and development. It further state that realizing this goal requires governments in resource-rich countries to formulate, implement and monitor detailed programs and policies in multiple areas, including leasing and fiscal regimes, social and environmental regulation, and national development plans and that resource governance and policy formulation should be guided by the principle of securing the greatest social and economic benefit for current and future citizens, including an equitable distribution of resource wealth.\textsuperscript{96}

\begin{footnotesize}
\textsuperscript{93} Natural Resource Charter, http://naturalresourcecharter.org/
\textsuperscript{94}For more information on the twelve Precepts, see http://naturalresourcecharter.org/precepts.
\textsuperscript{95}Available at http://naturalresourcecharter.org/, http://naturalresourcecharter.org/content/about/history, http://naturalresourcecharter.org/content/understanding/faq.
\textsuperscript{96}Natural Resource Charter, http://naturalresourcecharter.org/content/precept-1.
\end{footnotesize}
A Benchmarking Framework has been designed based on the NRC Precepts to allow countries to carry out self-assessment of their natural resource governance. The Benchmarking Framework is founded on the idea that the success or failure of resource governance rests on getting governance principles right across a whole chain of decisions. A country can identify what areas of natural resource governance are preventing the country from benefitting from its resource wealth by making an assessment of how well governance is performing across this decision chain.97

Nigeria is the first country to integrate the NRC. The Nigerian Natural Resource Charter (NNRC) complements NEITI’s efforts to make natural resource wealth management more transparent, the NRC looks beyond revenues transparency by looking at the entire natural resource value chain.98 A benchmarking exercise was carried out in the country based on the global NRC benchmarking framework with a benchmarking report issued in December, 2012 which assesses how Nigeria performed against the 12 precepts of good practice for optimizing the socio-economic benefits of natural resources set out in the NNRC.99 The conclusions reached in the report highlighted the main strengths and weaknesses of Nigeria’s petroleum sector, including potential policy priorities and opportunities. The report aims to assist Nigeria chart a path towards a more socially and economically equitable and sustainable use of its abundant natural resources and to provide the evidence needed to stimulate a broader, more informed debate.100

Generally, it appears most of the initiatives available presently to help improve EI governance have been able to achieve a level of success with respect to revenue transparency

100 Nigerian Natural Resource Charter, Benchmarking Exercise, supra.
especially in the Nigerian case but more work needs to be done to ensure that other good governance qualities like accountability are improved upon.

2.7 Legal and Institutional Framework in the Extractive Industry

The legal and institutional framework is an important factor necessary in the realization of good governance in the EI. For instance, to effectively fight against corruption requires effective anti-corruption laws and institutions that will enforce the law.

2.7.1 Institutional framework in the Extractive industry

Institutions are indispensable in the proper management of the natural resource industries. Weak institutions in the running of a nation’s resource wealth will lead to mismanagement, corruption, political instability and conflict which would result into poverty and underdevelopment.

Nigeria has created several government ministries, agencies and departments with various functions to administer and manage the industry.

In 1977, Nigeria founded the Nigerian National Petroleum Corporation (NNPC) as a government establishment with the responsibility of overseeing and managing government interest in the petroleum industries which includes the exploration activities, production, refining, transportation and marketing of crude oil and its products. Between 1978 and 1989, NNPC constructed refineries in Warri, Kaduna and Port Harcourt and took over the 35,000-barrel Shell refinery established in Port Harcourt in 1965. Major oil-related activities carried out by foreign oil companies in Nigeria are performed in joint venture with the NNPC.

The NNPC is empowered by the NNPC Act of 1997 to engage in all activities relating to the petroleum industry and to enforce all regulatory measures relating to the general control of the petroleum sector through its Petroleum Inspectorate Department. In 1988, the NNPC was commercialized into 12 strategic business units, covering the entire spectrum of oil industry
operations: exploration and production, gas development, refining, distribution, petrochemicals, engineering, and commercial investments. The NNPC currently has about 11 subsidiaries; one of these subsidiaries is the Nigerian Petroleum Development Company whose major responsibility is oil exploration and production.

The petroleum industry is also regulated by the Department of Petroleum Resources (DPR), a department within the Ministry of Petroleum Resources. The DPR ensures compliance with industry regulations; processes applications for licenses, leases and permits, establishes and enforces environmental regulations.\(^\text{101}\)

Other government agencies involve includes the Federal Inland Revenue Service (FIRS), this agency assess and collect taxes from the oil sector and carry out record-keeping. This function is performed through the Petroleum and International Tax Department (PITD).

Also, the Central Bank of Nigeria (CBN) receives taxes and royalties accruing to the federal government as oil revenue and equally engages in record-keeping.

Most of this ministries, departments and agencies saddled with the responsibility to manage the industry are often criticized as being weak in capacity and ineffective, they are also mar with corruption, mismanagement, bottlenecks and inefficiency, and it appears that there is no proper coordination between the agencies, sometimes no clearly defined role or there may be overlapping of functions.

According to a 2008 report by the Oil and Gas Sector Reform Implementation Committee (OGIC)\(^\text{102}\);


\(^{102}\) The Oil and Gas Sector Reform Implementation Committee (OGIC) was set up on 24\(^{th}\) April 2000 by former President Olusegun Obasanjo with the responsibility of making recommendations for the restructuring of Nigeria’s oil and gas industry.
“The Ministry of Petroleum remains essentially a civil service outfit that is ill-equipped to conceive and formulate the required policies for such a complex and sophisticated industry. The regulatory body, the Department of Petroleum Resources (DPR) is, by and large, similarly constrained being a body tucked away within the Ministry. The most problematic, however, remains the National Oil Company, the NNPC. It is simply a typical Nigerian state institution that operates as a huge amorphous cost centre with little or no sensitivity to the bottom line”

### 2.7.2 Legal framework

The importance of law to development cannot be over-emphasized. Nigeria has enacted numerous pieces of legislation towards regulating EI although most of them are either archaic and are not in touch with modern day reality within the EI or are unable to adequately cater for the challenges within the sector. Some of these legislations include: Petroleum Act 1969 as amended; the Mineral and Mining Act 2007; NNPC Act 1977, Oil Pipeline Act 1956 as amended 1965; Mineral Oil (Safety) Regulations 1962, Petroleum (Drilling and Production 1996; Petroleum Profit Tax Act (PPTA) 1959; Nigerian Oil and Gas Industry Content Development Act, 2010; Oil and Gas Pipelines Regulations 1995. There is also the Petroleum Industry Bill currently being debated by the national assembly. This proposed petroleum bill if passed into law is meant to increase the level of transparency and to address some of the current challenges within the EI. Nevertheless, the Petroleum Industry Bill has also been criticized as deficient in some of its provisions and not fully in consonance with international best practices in the industry. For instance, the Petroleum Industry Bill allows the President to use discretionary powers to allocate licenses and leases which

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103 Oil and Gas Sector Reforms Implementation Committee Final Report (2008).
is absurd in present day realities and can undermine some of the good governance qualities in the sector.

In this section, this study was able to assess the quality of the Nigerian EI governance noting the strength and weakness or area for improvement and conclude that for a country to successfully manage her resources must be able to score high in all the good governance principles taking in to cognizance that the principles are interdependent and interrelated and complementary.
SECTION 3: MAXIMISING THE BENEFIT OF EI FOR HUMAN DEVELOPMENT: THE RIGHT-BASED APPROACH

In the earlier sections, this study demonstrated the potentials of EI in fostering development generally and equally identified good governance as an indispensable factor in the effective management of natural resources while assessing the Nigerian EI governance. This section will focus on the human development challenges in Nigeria and examine how to best maximize the EI for a sustainable human development.

3.1 Human Development versus GDP

The term ‘human development’ is extensive or broader in meaning than economic growth. Development differs from growth, while growth entails a quantitative increase, and may precipitate development, development implies a qualitative change in structure.¹⁰⁴

Development has been said to refer to the enhancement of the conditions and standards of living, and the minimization of the percentage of those in poverty to the barest minimum.¹⁰⁵ Economic growth on the other hand is defined as the increase in the stock of economic

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assets over a given period of time. The economy of nations is usually represented as gross domestic product (GDP). Growth is measured as a change in per capita gross domestic or national product, usually over a year. The idea that the GDP is an absolute and reliable measure of development has been widely criticized by development economists. A great deal of empirical evidence shows that, both in developing and in developed economies, some countries have relatively high GDP per capita but very low indicators of development such as literacy, access to drinking water, rate of infant mortality, life expectancy, and education.

Economic growth is only a phenomenon of market productivity and rise in GDP. Economic growth does not guarantee improvements for the poor. But the poor rarely escape the impact of declines in per capita income, and often are hit hardest by them. Nonetheless, economic growth is still important as a means to sustain advances in human development. It is one aspect of the process of development. The process of development however stresses, ‘the focus has to be not on machines or institutions but on people.’ The United Nations Declaration on the Right to Development recognizes human person is the central subject of the development process. At all levels of development the three essential capabilities are for people to lead a long and healthy life, to be knowledgeable and to have access to the resources needed for a decent standard of living.

According to James C.W. Ahiakpor, development occurs when per capita income has been rising in addition to improvement in the distribution of income, a greater part of the population have

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106 Rhuks Temitope AKO, supra.
108 An analysis by the Human Development Report (incomplete)
109 Amartya Sen (incomplete)
gained more access to schools, hospitals, means of communication and transportation over time, and the techniques of production and the quality of life in general have improved.\textsuperscript{112}

Global development is measured in more concrete terms using the Human Development Index (HDI) of the UNDP. HDI is used to determine whether a country is developed, developing, or underdeveloped, as well as measuring the impact of economic policies on quality of life.\textsuperscript{113} The first UNDP Human Development Report observe that, human development has a concept, though comprehensive must be guided by the simple idea-people always come first and people must be at the center of all development.\textsuperscript{114}

The human development approach as such added value to the conventional economic growth approach by replacing GDP growth with human development indicators such as the provisions of food, health, education, nutrition, gender parities and employment, as measurements of development.\textsuperscript{115} Development is therefore all encompassing and must relate to and affect positively every aspect of a human life.

3.2 Nigerian development challenges

According to analysts, 75\% of Nigerian citizens live on less than USD 1 per day while about USD 300 billion oil wealth has disappeared from the country. Nigeria presents a classic example of how people in a resource rich country could wallow in abject poverty. Nigeria's

\textsuperscript{112} James C.W. Ahiakpor, \textit{Multinationals and Economic Development: An Intergration of Competing Theories}.
development shortfall is most evident in low earnings, unemployment, illiteracy, poor social indicators and significant disparities by income, gender and location.  

Nigeria has been exploiting oil resources for the last 50 years. Nevertheless, the exploration and exploitation of the EI are yet to benefit the populations. Also, her human and physical capita development is assessed to be 400 percent lower than it would have been if the oil revenues had flowed into public funds, and if such funds had been utilized in the public interest to generate economic opportunities for all. In 2011 for instance, oil revenues for Nigeria alone were 60 percent higher than total international aid to all of sub-Saharan Africa.  

The Nigerian development situation suggests that the binding constraint on future progress is not primarily the lack of resources but, rather, their prudent and effective use for development. In a recent report by Africa Economic Outlook, Nigeria’s economic growth has been said to remain positive. Since 2000, Nigeria is said to have witnessed significant progress in macroeconomic performance, with an average economic growth of 7.0%. However, the economic growth has not translated into job creation or poverty alleviation. A larger percentage of the population lives below the poverty line. Unemployment is said to increase from 21% in 2010 to 24% in 2011. The unemployment rate is highest for the age groups of 15 to 24 and 25 to 44.  

Indeed, for the Nigerian economic growth to be meaningful, it must contribute significantly to human development and the total welfare of the Nigerian citizens which will be evident by improved standard of living.  

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3.3 Nigerian Human Development Index

The human development indicators were developed by the UNDP and have been in existence for a period of about 30 years and UNDP’s annual human development report has been prepared annually since 1990. The human development index utilizes various development data from public international sources to prepare the report.\textsuperscript{121} Nigeria has continued to rank low on the United Nations’ Human Development Index (HDI). In fact, in the human development index 2012 rankings no African country was able to make it in the first two rankings of ‘Very High Human Development’ and ‘High Human Development’ despite being a blessed continent in natural resources. Nevertheless, some Africa countries like Botswana, South Africa, Egypt and Ghana were able to make the “Medium Human Development” ranking while all other Africa countries ranked among the ‘low human development’ with Nigeria specifically ranking 153 out of 186 countries. In the 2013 HDI, Nigeria still ranks low with a score of 0.471 in the 2013 UN Human Development Report.

3.4 The right-based approach to extractive industry revenue for human development

‘\textit{The right of peoples and nations to permanent sovereignty over their natural wealth and resources must be exercised in the interest of their national development and of the well-being of the people of the State concerned.}’\textsuperscript{122}

Maximizing the benefit of EI for human development using the right-based approach is centered on the rights to development and the right of the people over their natural resources and

\textsuperscript{122} General Assembly Resolution 1803 on Permanent Sovereignty over Natural Resources (GAR 1803) GA Res. 1803 (XVII) / 17 UN GAOR Supp. (No.17) at 15 / UN Doc. A/5217 (1962) [http://www2.ohchr.org/english/law/pdf/resources.pdf].
on other human rights principles such as participation, accountability, equality, non-discrimination, and transparency. Human rights are rights inherent to all human beings irrespective of nationality, place of residence, sex, ethnic origin, colour, religion, language, or any other status. Everyone is equally entitled to human rights without any form of discrimination. These rights are universal, inalienable, interrelated, interdependent and indivisible. Human rights are often guaranteed by national and international laws. Governments have an obligation to respect, protect and fulfil these rights.

Human rights have been recognized as having a link to development and considered essential to achieving development agenda. For instance on the Millennium Development Goals (MDGs) and the Post-2015 Development Agenda, it was said that ‘governments that pursue development hand-in-hand with human rights stand a better chance of reaching the MDGs’ and that human rights being solemn legal obligations of governments and inalienable entitlements of people everywhere must unequivocally be the bedrock of a new development framework to succeed the MDGs.

Human rights and development share a common objective which is to improve people’s well-being. Human rights protect the freedom and equality of all individuals and bring principles of accountability and social justice to the development process. Article 1 of United Nations

Declaration on the Right to Development states that “the right to development is an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to, and enjoy economic, social, cultural and political development, in which all human rights and fundamental freedoms can be fully realized."127

Several international human rights instruments provide for the right of the people over the use of their natural resources and wealth. The United Nations Declaration on the Right to Development declared inalienable the right of the people to full sovereignty over all their natural wealth and resources.128 This right of peoples to sovereignty over natural resources necessarily imparts an entitlement to demand that governments manage these resources to the maximum benefit of the people.129 Even though the state as sovereign being also exercises control over her resources, it does so on behalf of the people. Permanent sovereignty over natural resources is as much an issue of state duties as it is one of state rights.130

The right to development provides for equality of opportunity for development.131 It is the primary responsibility of government to create conditions favorable to the development of peoples and individuals in their country. The exploration and disposition of a nation’s natural resources should as a matter of necessity foster development for the people of the country.

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131 The United Nations Declaration on the Right to Development.
The World Bank declared that ‘investing in people if done right provides the firmest foundation for lasting development.’\textsuperscript{132} All people have the same basic needs. These needs includes; fresh air to breathe, clean water to drink, uncontaminated food to eat, and livelihoods that allow them to earn their keep and raise healthy, educated children.\textsuperscript{133}

According to a Human Rights Watch report, little of the money paid by the federal government to state and local governments from the oil revenue is actually spent on genuine development projects.\textsuperscript{134}

Translating resource wealth into human development therefore requires taking some extra steps in addition to revenue transparency. Some studies suggest maximizing EI revenue for development outcomes requires transparency in expenditure. This will require a proactive approach to monitor how EI revenue are allocated, budgeted and used to invest in the development of the people.

Also, taking into consideration the concept of the human person being central to development process and citizens’ ownership of their natural resources as encapsulated by international legal human rights instrument, government in managing natural resource wealth must of necessity consult and engage the citizens’ participation in the development process and create an enabling environment favorable for human development. This is in consonance with international best practices. National development policy, plan and agenda formulated by government should make human beings the main participants and beneficiaries of development.

The United Nations Declaration on the Right to Development in its preamble recognizes

\textsuperscript{133} White paper on International development presented to Parliament by the British Secretary of State for International development, Eliminating World Poverty: A Challenge for the twenty-first Century (1997).
development as a comprehensive economic, social, cultural and political process which should aim at constantly improving on the well-being of the entire population and of all individuals on the basis of their active, free and meaningful participation in development and in the fair distribution of benefits resulting there from.\textsuperscript{135}

Government at all levels must strive to use EI revenue to achieve sustainable human development. Governance must deliver tangible economic benefits to the citizens to be credible and sustainable.\textsuperscript{136} This can be done by government’s conscious effort to cut down on waste, reinvest and channel natural resource proceeds specifically towards program design to achieve greater human development. Wealth received from natural resources must be made to benefit the people in terms of the provision of education, health, employment and basic amenities and infrastructure like electricity, potable water, good roads and a clean environment.

Development should be people focused. Government must ensure and guarantee that an average Nigerian can easily afford 3 square meals in a day, send his or her children to school, and have reasonable means of livelihood. An effective, just, equitable, efficient and reliable service delivery, strong political will and good governance practice by the government is what will make the necessary changes in the lives of the people and their overall development.

\textsuperscript{135} The United Nations Declaration on the Right to Development, supra.

\textsuperscript{136} Charles C. Soludo, supra.
SECTION 4: SUMMARY AND CONCLUSIONS

According to the African Economic Outlook, the Nigerian economy, which is largely dependent on the EI is the largest in West Africa and the second largest in Sub-Saharan Africa. This economic advancement is yet to translate into improvement in the welfare of an average Nigerian citizen. Indeed the potential for development is there and as shown in earlier sections however, there are several challenges militating against maximizing the benefits of EI for sustainable human development and this includes generally poor governance, corruption, lack of accountability, political instability, conflict and violence amongst others.
Human Development or right to development has shown in earlier section, is now recognized as an inalienable human right which the citizens are entitled to just like the right to life or the right to fair hearing. Accordingly, human rights-based development approach is indispensable in tackling the human development challenges in the country. The right of citizens to development and sovereignty over their resource wealth must be respected by the government. An important factor of a right-based approach to development presupposes that citizen will be able to participate in their development process and will be able to hold their government accountable towards maximizing the benefits accrues from their natural resources in achieving their development.

This study observed that there is a level of success with EI revenue transparency; but however conclude it is not enough to bring about a broad-based human development. The essential potential contributions of the EI to sustainable human development hinge largely on several related factors such as political will, good governance practices that respect rule of law, human rights, transparency, accountability and citizens’ participation in the resource management, fair distribution of natural resource revenue, functioning institutions and effective laws, appropriate development planning and implementation and service delivery specifically meant for human development purposes.

Government must ensure that revenues received from natural resources are properly managed for the development of her citizens in terms of investing EI revenue to provide quality education, health care, infrastructure, employment and other basic amenities like food, water, and shelter. After all, natural resource wealth belongs to the people; their development should therefore be the primary concern and obligation of the government who manages these resources on their behalf.
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