Transparency and the Resource Curse

Evidence from the Case of Nigeria

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Abstract: In 2003, the G8 summit issued a statement entitled "fighting corruption and improving transparency." This statement was a result of a growing consensus within the international community that enhancing transparency within the extractive industries would reduce corruption and mitigate the 'resource curse.' Due to pressing energy security concerns in the West, combined with the regional instability in important oil-exporting areas, including West Africa and the Middle East, oil exporting countries are under mounting pressure to increase the potential for oil-led development. Improving transparency is seen as one vital mechanism to promote good governance, democracy, and development within oil-exporting states. Recent initiatives aimed at improving transparency, including Publish What You Pay and the Extractive Industries Transparency Initiative, have been largely successful in their aims, but such projects have not resulted in better governance and development. This paper will use the case of Nigeria to demonstrate the challenges of creating transparency within a weak institutional environment. It will emphasize the role of information production, management, and dissemination within transparency reforms. After discussing the case of Nigeria, and the challenges of improving transparency within a fragmented, institutionally weak environment, this paper will conclude with a broader discussion of policy implications and an understanding of the role that transparency reforms can play in mitigating the resource curse.

Over the last decade, transparency has become a hot topic on the international agenda, especially in the extractive industries. Improving transparency is associated with the development of democratic values, greater policy making capacities, economic growth, and corruption abatement. Moreover, in countries with extractive industries, improving transparency is understood to be the first step to reducing the negative effects of the resource curse. To date, transparency initiatives have been dominated by, not only assumptions about the relationship between transparency and economic and political change, but also about the types of transparency reforms needed to incur change.

The assumption made by the extractive industries transparency initiative [EITI] and publish what you pay [PWYP] initiatives is that creating transparency within the transactions between companies and governments will create systems of accountability that can form the basis of much needed political and economic reforms. The case of Nigeria, one of the first countries to complete a full EITI audit, demonstrates that transparency within the calculation, collection, and distribution of rents can have a positive impact on political and economic development. However, the reports also show that the impact of improving transparency between extractive industry companies and the government will be limited if subsequent improvements in transparency are not made throughout the value chain: from the awarding of contracts to the monitoring of projects, collection of royalties and taxes, the distribution of rents and the utilization of rents in sustainable projects.

In this paper, I argue that for transparency reforms to significantly impact political and economic governance, diminishing the effects of the resource curse, they need to target wider portions of the value chain. The challenge posed to this agenda is formidable, as it requires significantly altering governance structures, which has been shown to be an arduous and lengthy process that is highly likely to be unsuccessfully unless initiated from within the country itself. Despite these challenges the international community has significant reason to consider new and innovative ways of supporting transparency reforms to improve global energy security and abate political instability and civil conflict in resource abundant states.

The Resource Curse

Effective governance of natural resource wealth has become a prominent issue on the international agenda. A growing body of literature has documented the detrimental effects of poor management of natural resource wealth in developing countries. The overwhelming conclusion made by those working in this field is that natural resource endowments do not necessarily positively contribute to economic development and can, in certain cases, negatively affect development. The most prominent term for this phenomenon is the "resource curse."

Economic Explanations for the Resource Curse

There are many explanations for the resource curse, and they run the gamut from economic to political reasons. One explanation frequently discussed in economics literature is 'Dutch Disease.'[1] Dutch Disease is a term used to explain an appreciation of real exchange following a resource boom, which in turn reduces the global competitiveness of manufacturing and other tradable sectors.[2] According to Michael L. Ross, the Dutch Disease model can only poorly explain development in resource endowed countries in the developing world. The Dutch Disease model assumes that capital and labour supplies are fixed and fully employed before a

[1] The term Dutch Disease comes from the negative effects on the Dutch manufacturing sector of Holland's natural gas revenues from the North Sea, it is the contraction of other tradable sectors as a result of a boom in the natural resource sector

[2] Michael L. Ross. (1999, January) The Political Economy of the Resource Curse. *World Development* 51.

resource boom; however, in many developing countries this is not the case. Developing countries often have a surplus of labour and a manufacturing sector that depends upon imports of intermediate goods. Therefore, rising exchange rates can make goods cheaper.[3]

There are other economic explanations for the resource curse, which include declining terms of trade, unstable commodity markets, and the lack of spillover effects that commodity extraction, and particularly enclave resources[4] have on other sectors of the economy. The economic reasons for the resource curse are currently regarded with 'scepticism' by development practitioners.[5] This is primarily because studies that support economic explanations of the resource curse also suggest that governments can take steps to avoid these economic traps. Ross aptly describes the manner in which governments can escape the economic traps of the resource curse in the following extract:

Governments play an exceptionally large role in the resource sectors of almost all developing countries and, at least in theory, have the policy tools to mitigate each of these hardships: they can offset a steady decline in the terms of trade by investing in the productivity of their resource sectors and by diversifying their exports; they can buffer their economies against the vicissitudes of international commodity markets by using commodity stabilization funds and careful fiscal policies; they can use their commodity windfalls to promote upstream and downstream linkages; and they can counteract the Dutch Disease by maintaining tight fiscal policies, temporarily subsidizing their agricultural and manufacturing sectors, and placing their windfalls in foreign currency to keep their exchange rates from appreciating.[6]

Countries who have escaped the resource curse, including Indonesia, Botswana, and Malaysia, have successfully used a combination of these policies and others to avoid the economic traps discussed in resource curse literature.[7]

Political Explanations for the Resource Curse

Based on a growing agreement amongst development practitioners and academics that the state has the ultimate power to alter a state's development path by either mitigating or exacerbating the effects of the resource curse, a greater emphasis has been placed upon the political effects of resource endowment and to the study of why governments fail to choose policies that make resource abundance an asset rather than a liability.

Name	Model	Explanation
Cognitive Model (Political)	Resource abundance _ Revenues accrue to state governments _ State leaders are ill-informed _ pursue poor economic policies _ slower economic growth	This model is premised on the fact that state leaders have general lack of information and knowledge. This model has been largely discredited because leaders have been shown to very knowledgeable of appropriate policy choices in the face of growing resource revenues.

[3] Ross. "The Political Economy of the Resource Curse." p.307
[4] Enclave resources refer to capital intense point source resources including diamonds, minerals, and petroleum.
[5] Rosser. "The Political Economy of the Resource Curse." p. 14.
[6] "The Political Economy of the Resource Curse." P.306-310.
[7] See Clark Leith. (2000, June). *Why Botswana Prospered*. Canadian Economics Association Thirty Fourth Annual Meeting. University of British Columbia. Retrieved June 10 from http://www.ssc.uwo.ca/economics/faculty/Leith/Botswana.pdf; Maria Sarraf & Moortaza Jiwanji. (2001, October). Beating the Resource Curse: The case of Botswana. *Environmental Economic Series* 24753. The World Bank.

Rentier State Model (Political)	Resource abundance _ Revenues accrue to government _ Governments do not need to tax citizenry _ Less accountability between governments and citizenry _ a) governments myopic and risk-averse, b) governments engage in unproductive rent seeking behaviour, and/or c) discourage opposition through generous welfare programs _ poor economic governance _ slower economic growth	This model is said to fail to take into account economic diversification.
Institutional Model (Political)	Resource abundance a) _ Weak Institutions _ Corruption, poor economic policies that cannot protect the economy against price fluctuation, authoritarianism _Slower Economic Growth b) _ Strong Institutions _ Policies that stimulate economic diversification, controls for price fluctuations, taxation, democratization _ Strong Economic Growth	This model has received significant attention in recent years as more empirical and qualitative work is produced that support its assertions.

Of the three approaches considered above, the institutional perspective has received the most attention in recent years from academics.[8] Institutional quality, institutional design, and institutional strength are all shown to have been affected by resource development in resource abundant countries. In Terry Lynn Karl's book Paradox of Plenty, she demonstrates that oil production causes institutional inertia, focusing institutional capacity away from widespread development and towards resource production and exportation.[9]

Within the institutional explanation of the resource curse, strengthening institutions increases the probability that resource rents will positively affect development outcomes. This model has been the focus of transparency reforms, which aim to improve revenue governance by

[8] See: Asher, William. (1999). *Why Government's Waste Natural Resources*. London: The John Hopkins University Press; Bulte, Erwin H., Richard Damania & Robert T. Deacon (2005) Resource Intensity, Institutions, and Development. *World Development* 33(7): 1029-1044; Hutchcroft, Paul. (1997). The Politics of privilege: Assessing the Impact of Rents, Corruption, and Clientalism on Third World Development. *Political Studies* XLV: 639-648; Karl, Terry Lynn (1997). The *Paradox of Plenty: Oil Booms and Petro-States*. Berkeley: University of California Press; MacIntyre, Andrew (2003, January). *Institutions and the Political Economy of Corruption in Developing Countries*. Discussion Paper. Stanford University: Workshop on Corruption; Mehlum, H., Moene, K.O., Torvik, R., (2005). *Institutions and the resource curse*. Retreived July 20, 2007, from http://www.sv.ntnu.no/iso/Ragnar.Torvik/ej_march05.pdf; Mehlum, H., Moene, K.O., Torvik, R. (2006). Cursed by Resources or Institutions? *The World Economy*. 1117-1131; Ross, Michael L. (2001). Does Oil Hinder Democracy? *World Politics* 53 (April):325-361; Ross, Michael L. (2003.) Extractive Sectors and the Poor. *An Oxfam America Report*. Retrieved July 2, 2007, from http://www.oxfamamerica.org

[9] Terry Lynn Karl. (1997). *The Paradox of Plenty: Oil Booms and Petro-States*. Berkeley: University of California Press.

creating new mechanisms of accountability through revenue transparency, with the hope that political and economic institutions will be strengthened as a result.

Natural resource extraction negatively affects transparency because the governing regime face incentives to withhold information from the public. By withholding information, a government increases its opportunities to engage in rent seeking activities. Additionally, many of the international extractive companies prefer to retain a degree of secrecy within the industry in order to maintain a competitive business environment. The external and internal motivations to conceal information increase over time, as the government's livelihood is increasingly independent from that of its citizenry and dependent on international or domestic extraction companies, diminishing the benefits that accrue to the government from investing in its citizenry.

The focus on natural resources and institutional weaknesses, including transparency and corruption, is intertwined with the growing consensus that institutions are a central feature of development/underdevelopment.[10] The focus on best practice institutions and governance has resulted in the good governance agenda, whereby best practice institutions are delineated and measured. Transparency is an integral part of good governance, both directly in reference to economic and political transparency and indirectly in reference to corruption – which is seen to flourish in environments of extreme opacity.

The international oil industry is shrouded in secret, in many cases nobody knows for certain the amount of resource revenues accruing to the governments of resource exporting states, nor the extent of the corruption that exists throughout the industry.[11] According to Global Witness, the "(l)ack of energy transparency has led to corruption scandals in a number of oil producing countries in recent years, both tainting energy companies and seriously retarding economic development."[12] The connection between transparency, resource revenues, and economic development has been supported by the international community. The G8, international oil companies, NGOs, and multilateral lending institutions all agree that improving transparency will abate corruption and reduce the negative effects of the resource curse. The Council on Foreign Relations, in a report addressed to the American government, stated, (m)ost proposals for better management of hydrocarbon revenues rely on encouraging investors and governments to disclose payments and improve accounting, on the theory that greater transparency will make it easier to detect corruption, encourage better spending of revenues, and generally lead to better governance.[13]

Revenue transparency initiatives have received rapid endorsement from the international community for three important and interconnected reasons. Firstly, faced with increasingly unstable energy supplies, revenue transparency is widely understood to be a means to improve revenue management resulting in more secure global energy supplies. Secondly, transparency fulfills longstanding European and North American goals to promote the spread of good governance and democracy. Another more practical reason is that revenue transparency

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[10] North

[11] According to the Bribe Payers Index Oil and Gas sector is the third sector where bribes are demanded and accepted. Only arms and defence and public works and construction precede it. *Transparency International*. (2007). Bribe Payers Index. Retrieved July 20, 2007, from http://www.transparency.org/policy_research/surveys_indices/bpi/bpi_2002/complete_report_bpi_2002#sectors.

[12] *Global Witness*. (2007, March). Oil Revenue Transparency: A Strategic Component of U.S. Energy Security and Anti-corruption Policy.p.9

[13] *National Security Consequences of U.S. Oil Dependency*, Council on Foreign Relations, October 2006, available at *www.cfr.org*.

initiatives are an inexpensive, and a politically acceptable method of encouraging development and improving energy security.

Improving Transparency

Transparency is viewed as one means to improve revenue management in resource abundant states. Initiatives to improve transparency are primarily focused on revenue and payment disclosure and fighting corruption. However, Cain *et al* point out that the World Bank, and I would add the international community, has been "slow to make the connection between providing information for accountability and the underlying records systems that are the ultimate source of much of this information."[14] With low institutional capacity even basic transparency, for example transactional transparency, which involves publicizing company-state transactions, has proven difficult. Moreover, in many developing countries increasing transparency does not automatically create mechanisms of accountability. Without viable means to use information to alter government behaviour, transparency can have little effect on state behaviour.

Despite potential shortcomings, revenue transparency initiatives have been wholeheartedly embraced by the international community. In the current development agenda, democratization and privatization provide the frameworks within which good governance is pursued. Transparency is thus an obvious means to improve governance, which is conducive to both these frameworks.

The Case of Nigeria

Nigeria was one of the first countries to engage in EITI, and it is the only country that has completed a full audit of its oil industry, providing vital insight into an industry that is normally very secretive.[15] Additionally, Nigeria has both a long history as an oil exporting nation and a long history of economic stagnation, civil unrest, and corruption. Therefore, Nigeria provides excellent insight into the nature of non transparency in resource abundant states.

In 1956, Shell-BP discovered oil in Nigeria and became the sole concessionaire to operate in the country. Since that time, Nigeria has become the largest exporter of crude oil in Africa. Nigeria's economic dominance is amplified by its vast size, home to over 120 million people, and one in five Africans. Additionally, Nigeria is commonly understood to be a state afflicted with the resource curse.[16] Nigeria's GDP per capita fell from over 1200 USD in 1981 to less than 400 USD in 2003; this fall has resulted from a combination of economic decline and currency devaluations.[17] In 2006, Nigeria's GDP was growing at a rate of 5.3% and the purchasing power of per capita GDP was 1500 USD. While, as a result of high petroleum prices, Nigeria's economy shows marked improvements, Nigeria's social indicators remain low, and there have been few improvements in the provision of social services.[18] Nigeria's bright economic future is jeopardized by the social and political problems that wrack the country. Reckless borrowing policies, alongside poor economic management, corrupt leadership, and periods of predatory military rule, in a country divided by ethnic loyalties and religious

[14]Cain *et al*. "Filing for corruption." p.412

[15] Azerbaijan has completed in industry audits that were less extensive than those completed in Nigera.

[16] J.D. & A. M. Warner. (2001). Natural Resources and Economic Development: The Curse of Natural Resources. *European Economic Review* 45: 827-838; Nicolas Shaxon. (2005). New Approaches to Volatility: Dealing with the Resource Curse in Sub Saharan Africa. *International Affairs* 81(2): 311-324.

[17] This figure is Nigeria's nominal GDP. Rosamund Naduvi Ibiyemi Oyeleran-Oyeyinko. (2006). *Governance and Bureaucracy: Leadership in Nigeria's Public Service. The Case of Lagos State Civil Service (1967-2005)*. Universitaire Per Maastricht. Datawyse Maastricht. P. 22

[18]Oyeleran-Oyeyinko 23

differences, has culminated in a political and social landscape dominated by weak institutions, tenuous political coalitions, civilian uprisings, and leaders more concerned with amassing personal wealth than strengthening their country's economy.

In recent years, Nigeria has made the successful transition to democracy, taken steps to improve governance, and increased international confidence in its economy. Additionally, Nigeria has succeeded in attaining a debt reduction of 18 billion dollars, decreasing Nigeria's external debt by almost half. With growing government revenues, due to rising oil prices, and a more manageable debt, Nigeria is in a prime position to reduce poverty, diversify economically, and improve governance and economic management. Unfortunately, corruption continues to present an important impediment to human and economic development. Nigerian Extractive Industries Transparency Initiative (NEITI) has been developed "to promote due process and transparency in extractive revenues paid to and received by government as well as ensure transparency and accountability in the application of extractive revenues."[19] To date, the initiative has focussed primarily on only the first half of this mandate.

Transparency and Anti-Corruption Initiatives

Since president Obasanjo took power in 1999, he has embarked upon an ambitious program to improve petroleum revenue management. The two most noteworthy reforms have been the establishment of a Nigerian EITI (NEITI) and the publication on a government website and in local newspapers of the amount of money transferred from the central government to the state and local governments.[20]

In 2003, Nigeria became one of the first countries to adopt the principles and criteria of EITI and the Nigerian EITI program was launched the subsequent year. According to the EITI website, "EITI Nigeria will consist of an Independent Audit of Revenues and Payments in Nigeria's Extractive Industry; and the publication of all information and data on the extractive industries through a grass-root based communication strategy and through the engagement of rural communities and regional civil society groups."[21]

Since the program's adoption NEITI has developed several mechanisms through which revenues are reported, including company audits and accounts and company tax returns.[22] NEITI involves many different government departments including the central bank of Nigeria (CBN), the department of petroleum (DPR), the federal inland revenue service, and the Nigerian National Petroleum Corporation (NNPC). The Hart Group won the international tender to provide independent audits of the NEITI project. In 2006, the Group completed an audit of the Nigerian oil industry from 1999-2004, and currently the Group provides monthly audits of the project as well as quarterly updates.

Most recently, before the end of his time in office, President Obasanjo signed into law the NEITI Act. According to the NEITI website, "(t)he Act authorizes NEITI to conduct comprehensive audits of the oil, gas and mining sectors every year using international accounting standards. The Act also empowers NEITI to receive and publish information on payments made

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[19] Nigeria Extractive Industries Transparency Initiative. (2006). About NEITI. *NEITI*. Retrieved July 13, 2007, from http://www.neiti.org

[20] There have been reports that the government has failed to publish timely information on transfers, however, I can neither find this information on government websites nor information about transfers on newspaper websites. Revenue Watch Institute. (2007, April). Leaving a Legacy of Transparency Behind. *Revenue Watch Institute Policy Brief*. Retrieved July 12, 2007, from http://www.soros.org/resources/articles_publications/publications/nigeria_20070402/nigeria_20070410.pdf

[21] Extractive Industry Transparency Initiative. "Nigeria EITI Implementation Update."

[22] Nigeria Extractive Industries Transparency Initiative. "About NEITI."

by extractive industry companies and received by government to ensure both transparency and accountability."[23] One of the most important components of the bill is that companies can be penalized for not providing auditors with information, and operators can lose their petroleum license. Additionally, company officials involved in non disclosure and underpayment can be fined. The NEITI is a very progressive bill; however, weaknesses within the judiciary and a lack of political will could hamper the effectiveness of the bill, which will likely be underutilized.

In addition, to NEITI, the Nigerian government has made a commitment to transparency in their joint venture with Sao Tome and Principe. The Abuja Declaration signed by President Obasanjo of Nigeria and President Menezes of Sao Tome and Principe declares that the joint zone will be managed in accordance with EITI principles.[24]

PWYP Nigeria, which is composed of 150 civil society organizations in Nigeria, and provides vital oversight of NEITI. While other NGOs, including Oxfam, Human Rights Watch, and Save the Children supply imperative reports documenting corruption and bribery within Nigeria.[25] Additionally, the World Bank provides Nigeria with interest free loans through its International Development Agency. These loans are provided to federal and state governments based on their commitment to non-oil growth, governance, and human development. Both the World Bank and the IMF have provided Nigeria with critical support for NEEDS (National Economic Empowerment and Development Strategy), which places specific emphasis on government reforms, including improvement in transparency and accountability.[26] The IMF has endorsed Nigeria's economic policies through its Policy Support Instrument (PSI), to provide greater confidence to international lenders and investors. Generally, in World Bank and IMF documents, when evaluating improvements in transparency, they assess Nigeria's progress in implementing NEITI.

The NEITI initiatives remain at the epicentre of transparency initiatives in Nigeria, and it is now finding supporting in legislation, poverty reduction strategies, loans, and amongst local and global NGOs.

Revenue Governance

In the 1960s, the oil sector represented only a minor part of the Nigerian economy. During that time, the Nigerian government collected rents primarily through taxation and royalties. Today, the government has developed many methods of extracting rents from the petroleum industry through royalties, bonuses, petroleum profit taxes, production shares, government sale of crude oil, domestic market allocation, an education tax, and other minor taxes and charges levelled against companies.[27] The government's more active stance in the oil sector reflects both a greater understanding of the industry and a greater national dependence

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[23] Nigeria Extractive Industries Transparency Initiative. (2007, June). NEITI Bill Signed into Law. *NEITI*. Retrieved July 20th, 2007, from http://www.neiti.org/files-pdf/webstory300507.pdf

[24] Leigh, Kirk. (2007, August). Revisiting IMF's second Nigeria Policy Support Instrument. *Business Day*. Retrieved July 20th, 2007, from http://www.businessdayonline.com/?c=53&a=15303

[25] See: Human Rights Watch. (2007, January). Chop Fine: Human Rights impact of Local Government Corruption and Mismanagement in the River States, Nigeria. *Human Rights Watch Report* 19 (2). Retrieved July 19th, 2007, from http://hrw.org/reports/2007/nigeria0107/nigeria0107web.pdf; Human Rights Watch. (2005, February). Rivers and Blood: Oil, and Power in Nigeria's River States. *A Human Rights Watch Briefing Paper*; Save the Children. "Beyond Rhetoric."

[26] Nigeria's National Planning Commission. (2004). National Economic Empowerment and Development Strategy. Retrieved July 20, 2007, from *http://siteresources.worldbank.org/INTPRS1/Resources/Nigeria_PRSP(Dec2005).pdf p.11*

[27] Nigeria Extractive Industries Transparency Initiative (2006) Components of Petroleum Revenues in Nigeria. *NEITI*. Retrieved July 13, 2007, from http://www.neiti.org

upon oil revenues. Today, oil provides the government with 85% of revenues, and is thus by far the most politically important industry in Nigeria.

Table 3.1: Revenue Collection

Methods of Revenue Collection involving Oil Company State Transactions	
Bonuses	These are lump sum cash payments to the FGN on one or more of the following: a) Signature of contracts to explore and produce b) Declaration of commercial discovery c) Attainment of certain production levels. Bonuses have typically been treated as confidential.
Royalties	Royalties are levied as a percentage of production and vary depending on, among other things, location (onshore or offshore, deep water or shallow), the nature of the contract (tax and royalty or production sharing) and on whether production is oil or gas. Rates are public, but actual obligations are less transparent, precise information on volumes and prices is lacking. Rates for oil range as high as 20 percent; rates on gas vary from zero to 7 percent.
Profit Tax	The Petroleum Profit Tax (PPT) is levied on income, at rates which, in the case of oil, depend on the type of contract involved. The rate on tax and royalty contracts (which account for almost all current production) is 85 percent; on production sharing contracts (which have replaced tax and royalty for all new contracts), 50 percent. Income from natural gas is taxed at the corporate income tax rate of 30 percent.
Production Shares	Investors operating under production sharing contracts (PSCs), are obliged to pay the Government, through NNPC, a share of their production after recovery of cost. The share is negotiated contract by contract, and increases as function of either daily or cumulative production.

Nigeria Extractive Industries Transparency Initiative. (year unknown). Background Paper on the Nigeria Extractive Industries Transparency Initiative. Retrieved July 20th, 2007 from http://www.neiti.org p. 2-3.

Interestingly, when the Hart group finished its audit of the Nigerian oil industry from 1999 to 2004, they found that while they expected a discrepancy between oil company and state records in the hundreds of millions, in fact, only 7.9 million could not be accounted for.[28] This figure represents only 0.1% of transactions over a 6 year period, a rather insignificant amount in the context of overall revenues.[29] This figure of 7.9 million was determined by examining the difference between what companies reported paying to the government and the revenues the government reported receiving. Of interest in this calculation, is that six of the seven companies

[28] Hart Group. (2006). NEITI Final Report: Executive Summary. *Nigeria Extractive Industry Transparency Initiative*. Retrieved July 2, 2007, from www.neiti.org p. 9

[29] Revenue Watch Institute. "Leaving a Legacy of Transparency Behind." p.3.

reporting payments not recorded by the government were indigenous oil companies.[30] Therefore, while the focus of EITI and other transparency initiatives has been primarily on the oil majors, indigenous companies may be among the greatest culprits of non transparent and corrupt accounting practices.

Although, a discrepancy of 7.9 million is relatively small, the Hart Group found that companies were inflating their expenses when calculating PPT payments, thus reducing the amount they owe the government. Financial audits of company expenses did not reconcile with those submitted to the Nigerian government. There were significant discrepancies in operating costs and intangible drilling costs, amounting to over 2 billion dollars.[31] The Hart Group recommends that the Department of Petroleum Revenue (DPR) and the Federal Ministry of Finances review the manner in which expenses are calculated and deducted by companies when paying PPT. Additionally, the report recommends that the federal institutions responsible for petroleum revenue collection provide greater oversight of the industry and develop means to verify company calculations. Although companies provided insufficient data for the Hart Group to fully analyze the inconsistencies in PPT calculations, this discrepancy illustrates the need to increase the transparency and oversight of company PPT payments.

Revenue Collection: Non-Western IOCs

The Hart Group report stresses the need for greater oversight of oil exporting companies operating in Nigeria. Since 1999, when Obasanjo took office, international oil companies (IOCs) of non-western origin, including Chinese, Korean, Indian, and Indonesian companies have procured an increasing number of concessions, to play a greater role in the upstream and downstream sectors of the Nigerian oil industry. In a recent licensing round, only non-western IOCs and indigenous companies were offered first right of refusal on oil blocks, demonstrating their increased importance in the oil industry.

Generally, home countries with strong anticorruption stances and relatively transparent government institutions, are more likely to hold companies accountable for their actions, and to encourage their companies to be more transparent. In a study completed by Save the Children, transparency, anticorruption and whistle blowing policies, and supportiveness disclosure of revenue payments was measured in IOCS from a variety of home countries, Petronas (Malaysia), PetroChina (China), Lukoil (Russia), and CNPC (China) scored the lowest, while Shell (U.S.), Talisman, (Canada), Transatlantic (Canada), and ChevronTexaco (U.S.) scored significantly better.[32] The practices associated with non-western IOCs, which include non-transparency, disregard for human rights, and the willingness to skirt regulations in order to procure licenses, is concerning in a country attempting to increase transparency and reduce corruption.[33]

Revenue Collection: Licensing

Non transparent industry-state transactions are often complemented by non transparent licensing practices. The World Bank notes that introducing a transparent licensing system in

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[30] The seven indigenous companies reporting discrepancies Amni Oil, Express Oil, Panocean Oil, Manipulo, Continental, Con Oil. Chevron was the only oil major reporting a discrepancy. Hart Group. "NEITI Final Report: Executive Summary." p. 10.

[31] Hart Group p. 7

[32] Save the Children. "Beyond Rhetoric." p. 3.

[33]Nwokeji, Ugo G. (2007). The Nigerian National Petroleum Corporation and the Development of the Nigerian Oil and Gas Industry: History, Strategies, and Current Directions. Rice University: James A. Baker III Institute for Public Policy.. Retrieved July 2, 2007 from http://www.rice.edu/energy/publications/docs/NOCs/Papers/NNPC_Ugo.pdf p. 115

Nigeria would be a critical step to improve overall transparency and accountability.[34] Although, Nigeria promised to introduce competitive bidding for licensing in order to reduce the non transparent allocation of licenses under the discretionary licensing system, under Obsanjo's administration few reforms were made. Additionally, weeks before the end of the current administrations time in office, President Obasanjo sold off a refinery, a cement factory, 18 oil exploration contracts, and up to a 1000 mining concessions continuing the discretionary system oil licensing which has predominated in Nigeria over the last half of the 20th century. Prof. Olatunde Makanju argues that the government assets were sold below their value to friends of outgoing President Obasanjo and oil and mining licenses granted to those people and entities with ties to the president and the ruling party.[35] The NEITI has actively engaged in discussions encouraging transparency in oil licensing, both to increase investor confidence in licensing and to eliminate systemic corruption.[36] Over recent months, President Yar'adua has taken promising steps to decrease the corruption and opacity of oil licensing by transferring the responsibility for licensing to the Independent Petroleum Inspectorate Commission

Ensuring full transparency at the revenue collection stage has been hampered by weak institutions, executive control unable to monitor company behaviour, with poor record keeping, overlapping responsibilities, and necessary government functions not without designated institutions.

Institutional Weaknesses

Revenue at the federal government level is managed by a variety of different institutions, with overlapping responsibilities. The principle institutions involved in revenue management are the Department of Petroleum Resources (DPR), the Nigerian National Petroleum Corporation (NNPC), the Federal Inland Revenue Service (FIRS), and the Central Bank of Nigeria (CBN). Additionally there are two committees specifically designed to reconcile revenues, the Crude Oil Sales Reconciliation Committee and the Petroleum Product Sales Reconciliation Committee. The former committee is responsible for reconciling petroleum revenues with CBN accounts, while the latter is responsible for reconciling revenues received from FGN's allocation of crude oil to the NNPC for domestic use purposes in addition to reconciling petroleum product sales.

Table 3.2 Federal Revenue Management

Primary Institutions Responsible for Revenue Management	
Department of Petroleum Resources	The monitoring and collection of royalties, and for the production data used in the calculation of PPT.
NNPC	Within NNPC, the Crude Oil Marketing Department (COMD) is responsible for verifying production and sales data, and for establishing a representative price for tax purposes for different crude oils based on market realizations. The National Petroleum Investment Management Service (NAPIMS) is charged with approving capital

[34] Staffs of the International Development Association and the International Monetary Fund. (2005). Joint Staff Advisory Note on the National Economic
Empowerment and Development Strategy (NEEDS): Nigeria. *World Bank*. Retrieved July 12, 2007, from http://siteresources.worldbank.org/INTPRS1/Resources/Nigeria_JSAN-PRSP(Oct6-2005).pdf. P.8-9.

[35] Makanju, Olatunde (2007, June 1) Obasanjo last auction of Nigeria's assets. USAfricaOnline. Retrieved July 12, 2007, from http://www.usafricaonline.com/nasobj2007.capone.html

[36] *NEITI* (2006, July 21). COMMUNIQUE of Civil Society Stakeholder Forum on Oil Licensing Round Department of Petroleum Resources and Nigeria Extractive Industries Transparency Initiative. Port Harcourt. Retrieved June 12, 2007, from http://www.neiti.org/DPR/COMMUNIQUE-DPR%20210706.pdf

	expenditures and purchase contracts and monitoring operating and financial costs from the Joint Ventures (|JVs) and PSCs. NAPIMS receives management reports and audited accounts from the upstream companies, which positions it for review and audit of PPT filings.
Federal Inland Revenue Service	The Petroleum and International Tax Department (PITD) of FIRS is responsible for assessing and collecting PPT and other direct taxes from the JVs and PSCs.
Central Bank of Nigeria	The depository for royalties, PPT and other direct taxes, and provides information for reconciliation with the tax assessments of FIRS.

Nigeria Extractive Industries Transparency Initiative. (year unknown). Background Paper on the Nigeria Extractive Industries Transparency Initiative. Retrieved July 20th, 2007 from http://www.neiti.org p.5-6

In theory, the institutional procedures for assessing, collecting, and monitoring petroleum revenues are adequate. In practice however, vital institutions are often incapable of performing their designated tasks due to widespread corruption, a lack of independence from the ruling regimes, a shortage of qualified staff, and limited budgets. Thus institutions are often both incapable and disallowed to properly follow the procedures of revenue management.

The political evolution within Nigeria has greatly affected the ability of the government leaders and institutions to manage resource revenues. During the military rulers of the 1990s power became increasingly concentrated in the executive. General Abacha purposefully weakened state institutions, including those agencies responsible for economic management, regulatory agencies, the judiciary, and the civil service.[37] The diversion of resources by state elites, poorly paid and inexperienced civil servants, alongside diminishing institutional budgets, hollowed out the state.[38] Thus when the Nigerian state made the transition to civilian rule, the new regime "inherited an institutional landscape debilitated by years of financial scarcity, neglect, and outright plunder by previous regimes."[39] Unfortunately, crippling debts and severely depleted federal reserves prevented the incoming government from restructuring and reorganizing government institutions, increasing institutional capacities, and raising salaries to a competitive level to both abate corruption and recruit competent bureaucrats. The continued weakness of federal institutions combined with persistent corruption contributed to the enduring prevalence of non transparent practices within federal government institutions. Non transparent, unaccountable, and weak institutions provide an ideal setting for unproductive rent seeking activities by bureaucrats and political elites.

A cornerstone of effective democracy is public access to a transparent budget, thus allowing institutions, states, businesses, and civil society to hold the federal government accountable for their expenditures. In 2006, the International Budget Project ranked the transparency of government budgets in a selection of countries throughout the world. The project is intended "to nurture the growth of (the) civil society's capacity to analyze and influence

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[37] Lewis. " Growing Apart." p. 237.

[38] According to Olowu *et al*, Nigerian civil servants are paid four times less that which can be in a comparable position in the private sector. Dele Olowu, Eloho Otobo & M Okotoni (1997). The Role of the Civil Service in Enhancing Development and Democracy: An Evaluation of the Nigerian Experience. Paper prepared for presentation at *Civil Service Systems in Comparative Perspective,* School of Public and Environmental Affairs, Indiana University, Bloomington, Indiana. Retrieved July 20th 2007, from http://www.indiana.edu/~csrc/olowu1.html\

[39] Oluwu 257.

government budget processes, institutions, and outcomes."[40] According to the results of the Project's survey, Nigeria provides citizens with *scant to no information* on the seven essential budget documents that transparent societies make public throughout the course of the year.[41] In Nigeria, the Executive Budget proposal is only partially revealed to the public. The Open Budget project report identifies an important aspect of opacity within Nigerian institutions: non transparency exists in part because information is not released to the public and in part because information is not collected or managed properly. These two challenges are reiterated throughout the Hart group audit. The Hart Group audit was completed over the years of 1999-2004 auditing the physical, financial and process aspects or revenue collection. The audit identifies important deficiencies in Nigerian institutions.

The Hart Group audit demonstrated that the DPR failed to adequately regulate the calculation and payment of royalties, which diminished the state's ability to capture revenues. According to the Hart Group, "(e)ven though DPR computed royalty liabilities, these assessments were never filed on the upstream producing companies for payment."[42] Thus companies calculate their own royalty payments, which are then paid to the Federal Reserve Account in New York after advising the DPR of the payment. The lack of oversight by the DPR of upstream companies produces a scenario where company royalty payments can be subjectively monitored by the DPR, which is not in the interest of the Nigerian Federation, nor conducive to transparency and accountability. Additionally, because the DPR does not oversee royalty payment computations, significantly different approaches to royalty calculations are employed by companies than those used by the DPR themselves. Not only does the DPR maintain a passive stance in regards to royalty calculation, but the institution does not maintain adequate records of the payments due to the governments and maintains only one cash register detailing royalties paid by companies.[43]

Another gap in Nigeria's regulatory body (the DPR) is that it does not assume responsibility for monitoring the amount of oil produced at the well head, before being sent to the refinery. As a result, it is impossible to calculate the amount of unaccounted for oil, which may be stolen before the oil reaches the export terminal.[44] According to the Hart Group, this lacuna should have been filled by the DPR, who is charged with regulating the oil industry.

Problematic recordkeeping and industry monitoring exists not only within the DPR, but also within all other institutions charged with managing Nigeria's petroleum revenues. The Hart Group audit is replete with references to the inadequacy of record keeping, monitoring and verification systems, identifying particularly the lack of IT as a significant challenge. In a general survey of government websites, including the DPR, FIRS, and the CBN, only the CBN website provides free information that extends beyond the stated functions of the agency. The DPR provides detailed analysis of the strategic aspects of the oil and gas industry, but at a cost of 20USD a document, making the information largely inaccessible to the average Nigerian. Additionally, the office of statistics collects data from all three agencies and publishes this data on its website, unfortunately in some cases the data was over 20 years out of date. The

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[40] *Open Budget Project.* (2007). About. Retrieved July 20th, 2007 from http://www.internationalbudget.org
[41] *Open Budget Project.* (2006). International Budget Project. Retrieved July 20th, 2007 http://www.openbudgetindex.org/

[42]Hart Group. (2006). NEITI Financial Audit: Issues in Government Financial Systems. *Nigeria Extractive Industry Transparency Initiative*. Retrieved July 13, 2007, from http://www.neiti.org p. 15
[43] Hart Group 16.
[44] Hart Group. " NEITI Final Report: Executive Summary. "Sec. 3.6.

accessibility of information via the internet requires significant improvement to provide Nigerian citizens with the means to hold institutions accountable and increase transparency.

Not only is information not published publicly, but data is often not properly collected. According to the Hart Group audit, during the 1999 to 2004 period the Federal inland Revenue Services (FIRS) failed to actively assess and collect petroleum profits taxes (PPTs), leaving the industry to self-regulate.[45] Due to a general lack of capacity, FIRS is currently unable to work on par with industry tax experts, in order to ensure that companies do not under pay taxes.[46] Moreover, the Hart Group noted that FIRS record keeping was substandard, failing to maintain a proper cash book and relying on single entry records.

Deficiencies in record keeping and data collection and management extend to the Central Bank of Nigeria (CBN) and the Accountant General of the Federation (AGF). The AGF is responsible for managing the Consolidated Revenue Account (CRA) and the Federal Account, while the CBN acts as the banker to the AGF. According to the Hart Group report, the AGF is not notified in a timely manner or sometimes at all by the CBN of expected and actual inflows by paying entities. The AGF cannot monitor and control deposits made to the CBN, thus the AGF does not promptly discover missing receipts.[47] Moreover, AGF information on CBN accounts, when compared with CBN information on accounts, has demonstrated significant discrepancies, indicating that the AGF is not receiving accurate information from the CBN.

The CBN is not only the AGF's sole source of information, but maintains sector specific transaction records for the federation as a whole. In the Hart Group audit, it became apparent from the lack of organized archived data and routine sector specific analysis that "the Bank does not regard itself as properly the principal source of this information."[48] Later in the Hart Group report it was noted that the "CBN did not maintain an accounting and archiving system that facilitated the recording of accounting data and the preparation of accounting information about the Federation account."[49] In addition, when recording transactions the CBN fails to provide meaningful analysis and does not include relevant details. The institutional weaknesses within the CBN directly affect the AGF, diminishing the capacity of the AGF to properly manage federation accounts.

Within federal institutions record keeping and monitoring capabilities are very weak, preventing federal government institutions from fulfilling their constitutionally defined roles, the Hart Group notes other troubling institutional deficiencies at the federal level. For example, the Revenue Mobilisation Allocation and Fiscal Commission, which has been constitutionally mandated to have a senior role in monitoring revenues, have not been provided access to the Nigeria's National Petroleum Company (NNPC).[50] Additionally, the commission is under-resourced, and is thus unable to extend its activities beyond present day activities. As a result the Commission is unable to perform its duties and therefore, there is no body to oversee all areas of revenue management

Nigeria's National Oil Company

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[45] Hart Group" NEITI Final Report: Executive Summary." Sec. 3.7.
[46] Hart Group. "NEITI Financial Audit." p. 17.
[47] Hart Group. "NEITI Financial Audit." p. 2, 7.
[48] Hart Group 10.
[49] Hart Group 10.
[50] Hart Group. "Final Report: Executive Summary." Sec. 4.13

Nigeria's national oil company (NOC), the NNPC, has the most influential body within the Nigerian government, outside of the administration, because of its capacity to affect oil extraction, resource and revenue management and collection, and licensing allocation.

The Petroleum Act of 1969 reserved a discretionary option of participation for the federal government in all petroleum concessions.[51] After this Act was passed, Nigeria greatly expanded its participation in the petroleum industry. The NNPC has been plagued by corruption and mismanagement and while there is the opportunity for increased accountability and oversight between the DPR and the NNPC this does not occur in practice. The NNPC has continued to perform certain regulatory functions, to offset the deficit of qualified personnel that exists in the DPR, which creates institutional overlap and general confusion around institutional roles and responsibilities. This problem is worsened by the overlap in functions within the 12 subsidiary companies of the NNPC. The overlap between subsidiary companies creates confusion, loopholes, and causes institutional over stretch, resulting in institutional inefficiencies, non transparency, and ample opportunities for corruption and rent seeking. According to Nwokeji, a leading authority on the NNPC, "the absence of a clear regime causes confusion and loop holes that foster corruption."[52]

Not only is there overlap in activities performed by subsidiary companies, but many of the companies perform very poorly hampering Nigeria's economic development and even causing harm to the Nigerian populace. According to the NEITI audit Nigerian refineries operated collectively at less that 30% of their potential capacity.[53] Consequently, Nigeria relies primarily upon imported refined petroleum, which historically was sold at subsidized prices, leading to theft and widespread shortages. Additionally, only a year ago, a pipeline fire that took the lives of many Nigerians was blamed on the NNPC, who had failed to fix the broken pipeline that exploded.[54] The pipeline is said to have exploded because the NNPC lacks a specific authority charged with overseeing pipeline maintenance. The poor performance of many subsidiaries of the NNPC is partly due to a lack of capable staff, confusion over responsibilities, corruption, and bureaucratic apathy.

In 1980, a special government tribunal found the accounting of the NNPC to be severely lacking in transparency, it was discovered that to facilitate the sale of illegal crude the commercial department regularly withheld information from the accounting department.[55] Additionally, NNPC officials have systematically underreported crude oil production, helping to facilitate bunkering[56] practices.[57] This demonstrates that non transparency is not only a problem between the NNPC, other institutions, and the public, but within different departments of the NNPC itself. The Hart Group notes that the subsidiary companies of the NNPC are designed to be self-sufficient; however, in the end the NNPC ends up supporting each company by providing

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[51] Nwokeji, Ugo G. (2007). The Nigerian National Petroleum Corporation and the Development of the Nigerian Oil and Gas Industry: History, Strategies, and Current Directions. Rice University: James A. Baker III Institute for Public Policy. Retrieved July 2, 207 from **http://www.rice.edu/energy/publications/docs/NOCs/Papers/NNPC_Ugo.pdf** p. 13.

[52] Nwokeji 31.

[53] Hart Group. "Final Report: Executive Summary." sec. 2.

[54] Oke, Babatunde. (2006). Oil Workers Blame the NNPC for Pipeline Fire. *Punch*. Retrieved July 2, 2007, from http://www.punchontheweb.com/Articl.aspx?theartic=Art200612275375773

[55] Nwokeji 47.

[56] Bunkering is the outright theft of crude oil.

[57] Nwokeji 48.

them with loans that they cannot repay, resulting in funding that is far below the level needed for them to function adequately. Thus providing further incentives for managers to seek ways to augment their salaries and reduce their responsibilities. In this environment, non transparent revenue management occurs both because of rent seeking activities on the part of company employees and meddling by various administrations, but also due to a general lack of available information; data remains uncollected and unorganized, procedures unclear, and responsibilities blurry.

Since 2004, the NNPC has undergone reforms that " involve improved transparency and corporate culture, better and systematic documentation, and more openness with information, including deliberate publication of production and sales data, as well as improved communication and professionalism."[58] One example of these changes, is that the NNPC has adopted a tender process in the importation of oil supplies; when there are numerous bids by quality suppliers the tender process is highly transparent, reducing the likelihood of corruption.[59] Additionally, President Yar'Adua has committed to restructuring the NNPC, to create five new companies to replace the 12 subsidiary companies. These reforms would make the NNPC function as a SOC rather than a government agency. The NNPC would be accountable to international investors, and thus required to keep better records of its activities.[60]

By distancing the government and the NNPC, there will be fewer opportunities for corruption. In the past, the NNPC has been implicated in numerous scandals involving widespread corruption. According to William Asher, the lack of transparency and accountability within the NNPC facilitates the high level of oil related corruption within the Nigerian political system.[61] Improving the recordkeeping, monitoring, and institutional capacity of the NNPC and other institutions that manage government revenues is essential to increasing the transparency of revenue management within Nigeria.

Political corruption

The institutional weaknesses that dominate the Nigerian political landscape are complemented by entrenched practices of corruption within the executive, the judiciary, and at the sub-state level. The current transparency initiatives operating within Nigeria focus almost exclusively on revenue collection. Yet, the degree of opacity and corruption within the federal institutions and administrations managing revenues remains very high and without a significant increase in the government's commitment to NEITI and other transparency reforms, visible improvements in revenue management will remain elusive. A culture of corruption and political patronage has penetrated all facets of federal revenue management; therefore, effectively improving transparency and reducing corruption will require more then a rhetorical commitment to fight corruption.

The Executive

Nigeria is a highly centralized federation. The hope was that weak states subsumed under a strong central government would reduce past instabilities.[62] The federal government was made stronger because their share of government revenues remained substantially higher than that which was allocated to the states. Since 1982, states have received

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[58] Nwokeji 10.
[59] Hart Group. "NEITI Process Audit." p. 48.
[60] Rahman, Tunde [2007, September]. Nigeria: NNPC Save Billions in Cash Calls. *All Africa*. Retrieved June 1st, 2008, from http://allafrica.com/stories/200709030434.html
[61] Asher. " *Why Government's Waste Natural Resources*." p. 185.
[62] World Bank Report 2002: Oyeleran-Oyeyinko. "Governance and Bureaucracy. p. 17.

between 24 and 32% of revenues, with local governments allocated an additional share. The centralization of power and revenues has resulted in widespread corruption. Since 1999, when the state transitioned to democracy, there has been a renewed focus on fighting corruption.[63] Since that time President Obasanjo launched an ambitious anticorruption program creating open and competitive tenders for government contracts, making reforms to the civil service, leading a campaign to indict all corrupt government officials, and creating an economic and financial crime commission (EFCC) and an independent anticorruption agency to investigate and punish those that engage in corruption.[64] Despite the focus on anticorruption Obsanjo's efforts lacked the necessary funds to ensure their success, and since his predecessor took office numerous reports of corruption have argued that Obsanjo's commitment to reform was a veil for continued corruption practices.[65] For example, the impeachment of state governors which has occurred under he guise of the EFCC has been "shrouded in controversy, with little public disclosure at the close door proceedings, but just enough (public disclosure) to strike fear among other governors who would consider defying Obasanjo's orders to pick the 'right' candidate (emphasis in original)."[66] Additionally, the office of Independent Corrupt Practices and Other Related Offences has only been able to investigate half of the petitions it received due to a shortage of funding and staff. Former president Obsanjo's commitment to reform absolved him of recrimination by the international community, thus providing him with greater leeway to circumvent democratic procedures and ignore the rules created by his own government.[67]

President Yar'Adua, Obsanjo' predecessors has stated his continued commitment to fight corruption and reform the government. Unlike Obsanjo, who held back the Freedom of Information(FOI) Bill, Yar'Adua has revived the Bill and has stated his commitment to ensuring that it pass through the national legislature. However, there are still concerns pertaining to Yar'Adua's sincerity in his stated commitment to fight corruption.

The corruption of successive administrations within the government directly affects the transparency of transactions between the federal government, the states, and the public. According to Diamond *et al,* the future of democracy, and it could be added, transparency "lies in the hands of politicians who have at virtually every critical juncture to date been driven by the quest for personal enrichment and ethnic and regional advantage over any commitment to the Constitution, the democratic process, or the nation itself."[68] Political corruption has both contributed to and been facilitated by, weak and sometimes corrupt federal, state, and local institutions. The centralization of power within Nigeria, and the penetration of the executive within the institutional structures of the state have led the executive to exercise a high degree of control over resource revenues. Thus, corruption and rent seeking activities within the executive branch of government prevent revenues from being properly managed and distributed by the institutions charged with revenue management.

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[63] Agben, Osita. (2004). New Anticorruption Governments: The Challenge of Delivery:The Case of Nigeria. *Transparency International*. Kenya Meeting on New Governments. Sec; BBC News. (2008, May 12th). Obsanjo Denies power Corruption. Retrieved May 20th, 2008, from http://news.bbc.co.uk/2/hi/africa/7395968.stm 1.

[64] Agben Sec. 2.

[65] Agben. "New Anticorruption Governments." Sec. 3.

[66] *The Risk Advisory Group*. (2007). Nigeria. The Risk Advisory Group Plc 15. Retrieved July 23, 2007, from http://www.riskadvisory.net/uploads/File/TRAG%20newsletter/Issue%2015%20-%20Nigeria.pdf p.2

[67] Peel 6.

[68] Diamond. " Institutional Design, Ethnic Conflict Management, and Democracy in Nigeria." p.424.

Subnational Governments

The previous section has detailed corruption and non transparent practices within the central government; however, corruption and non transparent financial management is the same if not more pervasive at the state and local level. Yet, the transparency reforms, pursued since 1999, have largely excluded state and local governments. Financial management at the state and local level remains secretive and citizens have few means to hold sub-national governments accountable for their expenditures.

Despite the lack of transparency and accountability, state and local governments have been charged with managing double, triple, and even quadruple their budgets due to changes in revenue allocation at the federal level and to the rise of oil prices. With increasing budgets, weakened state and local governments have begun demanding greater power and responsibility from the central government. However, the majority of their revenues are derived from central government transfers rather than from state taxation, there is a systematic detachment between state and local governments and the people they govern. Consequently, sub-national governments are not motivated to use central government transfers to fulfill the responsibilities accorded to them.

The separation between government and polity heightens the risks of corruption and personal rule. In a Human Rights Watch study, of five local governments in Rivers State, in spite of a quadrupling of budgets, all failed to invest even nominally in health and education.[69] In one local government, health care facilities had closed because salaries remained unpaid and the clinics lacked the sufficient supplies to operate.[70] A former member of a local council stated that "(g)reedy politicians are literally killing their own people by stealing the money for health care, for schools, for clean water, for everything the state should provide its people,"[71] The non transparent and corrupt state and local government practices are accompanied by long term regional resentments.

Opaque financial administration by successive military and civilian governments created mistrust between states and the central government, particularly in the resource producing states of the Niger Delta who felt that they received less revenue than the resource poor northern states. In recent years, decades of resentment culminated in a rash of protests and outbreaks of violence targeting multinational corporations, which succeeded at one point in shutting down a third of the countries production for ten days and eventually ended in Shell closing a facility due to security concerns.[72] To blame for the lack of economic and social development within the Niger Delta is the failure of political leaders at all levels of government to cooperate to forge a federal government structure capable of functioning properly.

Transparency Reforms: A Complex Endeavour

The case of Nigeria demonstrates that transparency is obstructed by numerous factors, including weak institutions and pervasive corruption. Non transparency often results from a lack of collected, recorded, and stored information. Information may fail to be collected and stored because institutions are underfunded or understaffed, no institution has the jurisdiction to collect and store information, bureaucrats do not have adequate training, and/or because government officials face perverse incentives to hide or withhold information. Superficial transparency

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[69] Human Rights Watch 2.
[70] Human Rights Watch 3.
[71] Lydia Polgreen. (2006, November 24). Nigeria States Mired in Corruption. *The New York Times*. Retrieved July 20th, 2007 from http://www.iht.com/articles/2006/11/24/africa/web.1124nigeria.php
[72] Peel 2.

reforms advocated by Publish What You Pay and EITI are an important step towards greater improvements in revenue management. However, without deeper reforms strengthening institutions and reducing corruption, transactional transparency can have only a limited effect.

Deeper reforms require more costly initiatives that are less likely to succeed if initiated by external agents without domestic support, yet deeper reforms are required to transform poor revenue governance practices. EITI++ is a new initiative that recognizes the limitations of EITI and seeks to improve governance in the whole process of natural resource utilization. Under this initiative governments have access to technical assistance and capacity to help improve management of natural resources. EITI++ "aims to improve the quality of contracts for countries, monitoring operations and the collection of taxes and royalties. It also aims to help improve "economic decisions on resource extraction, managing price volatility, and investing revenues effectively for national development."[73] The case of Nigeria supports the pursuit of deeper reforms to encourage greater transparency; however it also demonstrates that systems of entrenched corruption can make these reforms very difficult, if not impossible. Currently, Guinea and Mauritania have requested EITI++ support, and the expansion of this initiative may have to await further requests, as its imposition through loan conditionality or international pressure, could lead to nominal commitments, where money is wasted attempting to strengthen institutions engaged in revenue management in a political system where the political elite and even the bureaucratic elite do not desire such changes.

Improving transparency requires not only strengthening institutions, but also altering the perverse incentives faced by the political elite to engage in unproductive rent seeking activities. Deeper transparency reforms could lead states to escape the resource curse, a hurdle that most developing resource abundant states have not overcome. The political models of the resource curse demonstrate both the challenge of avoiding it, and its temporary nature. Under these explanations it is not a function of the market, but rather a result of political and institutional decisions and incentives. Altering these incentives and consequently constructing a system where decision-making considers, firstly and fore mostly the welfare of the public, is a serious challenge. However, transparency reforms that extend beyond the transactional level, and that receive some degree of support by the governing elite, have a chance of altering these incentive structures and improving revenue governance in resource abundant states..

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[73] World Bank and Partners Launch EITI++. World Bank Press Release No:2008/269/AFR Retrieved May 2, 2008, from http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21727772~pagePK:34370~piPK:34424~theSitePK:4607,00.html

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