Inverted Development and Oil Producers in sub-Saharan Africa: a Study

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Acronyms

b/d	Barrels per Day.
HDI	Human Development Index.
OPEC	Organisation of the Petroleum Exporting Countries.
Sinopec	China Petrochemical and Chemical Corporation.
CNPC	China National Petroleum Corporation.
NDPVF	Niger Delta People’s Volunteer Force.
NDV	Niger Delta Vigilante.

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The oil producers in sub-Saharan Africa are increasingly attracting attention from all over the world. The countries like Chad, Sao Tome and Principe and Sudan were marginalized for long but discovery of oil has turned them into hot spot, investor from every corner of the world are queuing up to invest in these countries. However, there is negative side of oil discovery too exist. The assumption that `black gold' would transform economy and would bring prosperity for common man has remained a dream in many oil producing countries in sub-Saharan Africa. The oil producing countries have failed to bring about overall development in the society. Counterintuitively, the oil revenue is responsible for increased violence in society, poor economic growth and environmental degradation. The oil producing countries, instead of enjoying boon, suffer from the `curse of oil', a phenomena which highlights that oil is responsible for the poor economic growth and many countries, which are not blessed with oil, have progressed much ahead of oil producing countries.

Nigeria, which has disastrous development experience, is a classic example of curse of oil. Over five decades of oil production and around $400 billion worth of oil export fail to transform economy of country. In 1965, oil revenue per capita was about $33 and GDP per capita was $245. In 2000, when oil revenue increased by seven folds to $ 235 per capita, per capita GDP remained at the 1965 level. More and more people have been pushed towards poverty over the years. Between 1970 and 2000, the poverty rate increased from around 36 percent to under 70 percent. Similarly, income distribution have deteriorated sharply, where as in 1970 the top 2 percent and the bottom 17 percent of the population earned the same total amount of income, in 2000 the top 2 percent had the same income as the bottom 55 percent.[1] The Niger Delta, the oil producing region of Nigeria is still poverty stricken and mired in violence. The situation is repeated in other oil producing nations in Africa.

The present article tries to study the concept of `curse of oil' with respect to oil producers in sub-Saharan Africa. The first part explores the theoretical position underpinning the concept of the ‘curse of oil’. The second part of the article deals with the oil producers and consumer of sub-Saharan oil. In the subsequent part studies three important aspects of the concept, namely, corruption, lack of diversification/Dutch disease and conflict.

The Curse of Oil

The curse of oil is referred to the inconsistency that the oil rich countries have less economic growth than countries without any such resources. The oil rich countries have large economic resources at their disposal to bring about speedy economic development in their country. However it is observed that the oil rich countries were unsuccessful in developing their economies. In many cases, countries without oil wealth developed much faster that the oil rich countries. Phillip Le Billion highlights the following points to which he referred as the resource curse;

1> Poor economic growth and exposure to shock – Countries with natural resources have on average a lower economic growth rate that resource poor countries and are badly hit when commodity prices decline.

2> Low standards of living, poverty and inequality – Oil dependence is correlated to lower level of social development, high rate of malnutrition, low health care budget, poor enrolment in primary and secondary education and low adult literacy rate.

3> High level of corruption – As a result of discretionary control over large resource rents, the leaders tend to be more corrupt. Late Gen. Sani Abacha of Nigeria reportedly embezzled an estimated $2.2 bn over his four year rule.

4> Authoritarianism and poor governance – Oil and mineral wealth appear to inhibit democracy and help strengthen autocratic rule.

5> Risk of civil war - Resource dependent countries are more prone to civil war. The risk increases when resource exports represent about a third of GDP. These countries have sufficient money to buy political opponents and build armed forces to fend off large scale rebellion.[2]

Jeffrey Sachs and Andrew Warner in their study highlight the inverse association between natural resources intensity and growth between 1970 and 1990 and call it a `conceptual puzzle’. They emphasise that the oddity of resource poor economy outperforming resource rich economies has been historically existed. In the seventeenth century resource poor Netherlands overtook Spain in prosperity despite the overflow of gold and silver from the Spanish colonies in the third world. They quote the sixteenth century French political philosopher Jean Bodin to underline the oddity, `men of a fat and fertile soil are mostly commonly effeminate and cowards; where as contrariwise a barren country make men temperate by necessity, and by consequence careful, vigilant and industrious.’ [3]

In the nineteenth and twentieth century story repeated again. The resource poor countries such as Switzerland and Japan progressed ahead of resource abundant country such as Russia. In the recent past, they highlight, the economic development of Newly Industrialised Economy (NIC) of East-Asia- Singapore, Taiwan, Hong Kong and Korea have left behind oil rich countries of Mexico, Nigeria and Venezuela.

Alan Gelb, Benn Eifert and Nils Borje Tallroth attribute the curse of oil resources to the type of government. They classify the oil producing countries into several categories ranging from mature democracies to predatory autocracy. The fundamental question for oil producing countries, as they project are, how much to save for the future generation, how to achieve economic stability in the face of uncertainty and widely fluctuating oil revenues and avoid the `boom-bust’ cycle of oil prices. How to ensure that spending is of high quality, whether in the form of public investments, public consumption or subsidy.[4]

The well run oil economies for Alan Gelb and others is mature democracy where there is relatively stable party system, strong electoral institutions and broad social consensus. As a result of political stability and institutional accountability, policy makers think for the long term. There is smooth change of power and party reputation and economic performance becomes central to competition for political power. The change in government rarely leads to a sweeping change in policies. The administration is transparent, bureaucracy is competent and relatively insulated. Judicial system is well managed and foster depersonalized functioning of market. In such state property rights are clear and protected. The state investment and provision of public good complements the productivity of private sector which gives rise to a strong constituency of prudent economic management. As against the mature democracy, the predatory autocracies are usually much less stable. The government in power is not based on broad public support or economic performances but on military power and support of few elites. There is mass exploitation of public and private resources by elites, for common man oil wealth delivers little benefit. There is greater continuity in regime but due to insecurity in their position, they have short term policy horizon. These autocracies are nontransparent and corrupt.

Michael Ross in his study clearly links the adverse relationship of oil and democracy. Oil impedes democracy irrespective of volume of oil exported, whether large or small. In fact, oil does greater damage to democracy in poor state than in rich state. Similarly, the rise of oil export over the years will again do more harm in poor state than rich state. This phenomenon is universally observed from the Middle east to Central Asia and Latin America to Africa. He suggest that the lack of governance leads to `resource trap', authoritarian government may be less able to resolve domestic conflict and hence more likely to suffer from civil war. Slow growth may make domestic unrest tougher to resolve; civil war, in turn wreck economic havoc. However, he also hints that there is nothing inevitable about resource trap. There are states like Malaysia, Chile and Botswana which have done relatively well despite greater reliance on mineral resources.[5] Norway is a clear exception to the curse of oil.

Norway is one such case of mature democracy, which successfully utilized oil revenue for overall development of society and could successfully keep off the adverse impact of oil revenue. Norway long realized that oil revenue is only temporary. Norwegian oil bonanza started, almost as the same time as Nigeria, in 1962 when oil was discovered in North Sea. The government utilized oil wealth to implement its three main objectives, full employment, greater equality through redistribution of wealth and the expansion of the welfare state. The burgeoning oil wealth allowed the government to hike spending on social service, pension and public employment. It granted huge subsidy to agriculture and industry. However, the most significant step Norway took is the creation of the Petroleum Fund of Norway, where the oil revenue is deposited. The fund is utilized for ethical and environment projects and is used as fiscal shock absorber in the case of oil price volatility. It ensures equitable distribution of oil wealth.[6] It is because of the prudent utilization of oil wealth, Norway is rated as one of the topmost countries in Human Development Index (HDI) where as Nigeria is still struggling at the bottom of the Index.

Richard Auty brings rentier state as another attribute of the curse. Oil producing state derive high rents from allowing exploitation of oil resources by external clients and which contributes all or substantial portion of their national revenue. However, high rent has negative correlation with the overall economic development, it makes state predatory rather than developmental. High dependence on the primary sector provides less incentive for diversification in labour-intensive sector such as agriculture, manufacturing and services. The government blocks reform to restructure the economy and boost investment efficiency. However, the high rent provides incentive to use rent to create jobs by over extending the bureaucracy to absorb the persistent labour surplus. It sometimes also protects parasitic sectors which have little incentive to mature. In the whole process, the competitive diversification of the economy suffers. In the absence of a vibrant economic activity, tax collection remain at low or negligible level, which further pushes the economy to rely more and more on the rent. A vicious circle starts and makes the economy vulnerable to shocks and growth collapse.[7]

Oil Producers in sub-Saharan Africa

Africa is rich in oil resources, yet most African countries have poor energy access. 9.5% of global crude oil reserves and 8% of gas reserves are in Africa. 12% of global production is from Africa but it only consumes 3.4% of global oil. Africa consumes less than 30% of its oil and gas. It exports the rest. Oil resources are concentrated in a relatively small number of countries and sub-regions (North and Western Africa). Nigeria, Algeria, Libya, Angola are the major producers. Other producers are Egypt, Sudan, Equatorial Guinea, Congo Republic, Chad, Gabon, Tunisia and Cameroon. However, in the last decade there has been noticeable changes in the geography of oil and gas in Africa. Several new producers have joined the league of oil producers, notable among these are Sudan Equatorial Guinea and Chad.

The proven reserves of oil as well as production of oil in sub-Saharan Africa is growing over the years. The proven reserves which stood at 58,000 million barrels in 1986 have almost doubled to 117,200 million barrels in 2006. (See Table-1). In sub-Saharan Africa, Nigeria dominates the oil scene with 36,200 million barrels of oil reserve which is more than one third of total oil reserve of Africa. Angola has the second largest oil deposits. Sudan is a late entrant to the oil producing nations in sub-Saharan Africa but has risen ahead of other traditional oil producers like Gabon, Republic of Congo and Cameroon. Equatorial Guinea too has seen discoveries of oil deposits though it is not as startling as Sudan. The discovery of oil deposits in states adjacent to the Gulf of Guinea like Nigeria, Equatorial Guinea, Sao Tome and Principe are offshore and brought increased attention from across the world.

TABLE-1

Proved Reserves of Oil

(Thousand million barrels)

	1986	1996	2005	2006
Angola	1.4	3.7	9	9
Chad	-	-	0.9	0.9
R. of Congo	0.7	1.6	1.9	1.9
E. Guinea	-	0.6	1.8	1.8
Gabon	0.6	2.8	2.1	2.1
Nigeria	16.1	20.8	36.2	36.2
Sudan	0.3	0.3	6.4	6.4
Total Africa	58	74.9	117.2	117.2

Source: British Petroleum, *BP Statistical Review of World Energy June 2007* (London: British Petroleum p.l.c., 2007).

In terms of oil production, Nigeria is the largest oil producer in sub-Saharan Africa and contributes almost one fourth of the total African oil production. Angola is the second largest oil producer. However, Nigerian oil production, over last one decade has not grown like Angola because of its membership of the Organisation of the Petroleum Exporting Countries (OPEC). As a signatory, Nigeria is bound to produce oil as per quota allocated by the OPEC. The OPEC through such quota controls the fluctuation in the global oil prices. Angola, which has seen the doubling of oil production in the last ten years is unlikely to see such a jump in the coming years as it has joined the OPEC as the twelfth full member of the organisation with effect from January 1, 2007. Angola, like other members would produce oil as per the quota. Nigeria and Angola are the only two member of the OPEC in sub-Saharan Africa. This will have a direct impact on the overall oil production of Africa too. Angola contributed one tenth of the total oil production of Africa, and will have modest growth, which in turn would not hike the overall oil production of Africa as significantly as it did before.

Sudan has emerged as a formidable oil producer in the last couple of years. Its oil production in 1996 was only 5,000 barrels per day (b/d) which has increased to 397,000 b/d. Infact, in the last six years Sudan has almost doubled its oil producing capacity. (See Table-2) Equatorial Guinea is another such state with multifold jump in its oil production. In 1996, its oil production was only 17,000 b/d which increased to 358,000 b/d in 2006. In the last six years, like Sudan, it has doubled its capacity. On the one hand, Sudan and Equatorial Guinea have seen tremendous increase in oil production, on the other hand, Cameroon has seen fall in its oil production. Over the last ten years in Cameroon oil production has declined from 110,000 b/d to 63,000 b/d in 2006. Gabon too has seen decline in oil production over the years though it is not as sharp as Cameroon. Republic of Congo, another significant oil producer in sub-Saharan Africa has steady level of production.

These oil producers have attracted attention from all over the world. African oil reserves which stand next only to the Middle East and Latin America have earned Africa the name "the Second Gulf region." The Gulf of Guinea, the right angle in Africa’s west coast, where large deposits of oil are found, is referred as the oil industry’s new ‘El Dorado’. Fuelled by demand from importers such as the United States, Europe, China, India and other fast growing Asian economies there has been massive surge in oil trade.

The global demand for African oil is steadily increasing and so is the increase in the global competition for oil. The competition for African oil is driven by strong demand from the Asian drivers who are also willing to invest substantially in developing the huge oil and gas reserves in Africa. This must be seen in the context of their geopolitical balancing acts and supply diversification given the protracted insecurity and crisis in the Middle East oil production where the bulk of global oil and gas reserves are located

The serious problem in oil producing countries in sub- Saharan Africa is of downstream oil activity. Downstream activity encompass production, imports and exports and distribution of refined petroleum products and the state of African refineries. There are many refineries in the region, but this has not precluded the significant and expensive dependence on oil imports from outside the Africa region. Oil products refined in the region are mainly produced in small, inefficient, poorly maintained and outdated refineries and suffer from diseconomies of scale. The quality of the oil products produced in many of the refineries does not meet the international standards and capacity utilization is the lowest by global standards.

TABLE-2

Oil Production

(Thousand barrels daily)

	1996	2000	2005	2006
Angola	716	746	1233	1409
Cameroon	110	88	58	63
Chad	-	-	173	153
R. of Congo	200	254	246	262
E. Guinea	17	117	356	358
Gabon	365	327	234	232
Nigeria	2145	2155	2580	2460
Sudan	5	174	355	397
Total Africa	7441	7830	9846	9990

Source: British Petroleum, *BP Statistical Review of World Energy June 2007* (London: British Petroleum p.l.c., 2007).

At present, oil consumption in Africa is about 2.8 million b/d while the refinery capacity is 3.3 million barrels per day. On paper it appears that Africa has sufficient refining capacity to meet its immediate demand. However in 2005, the 23 refineries scattered all over the region could only produce 2.4 million barrels a day. The demand was met with imported refined oil. Thus, a major challenge for the oil industry in Africa is to undertake the major streamlining and investment that is needed in the refining and product supply to make the industry more competitive globally. There is an urgent need for modernized downstream sector that adds much value to the large amount of crude oil produced in the region. Africa can only maximize its return from the exploitation of its oil resources when the downstream sector becomes more competitive regionally and globally. [8]

African oil producers enjoy several advantages over their counterparts all over the world. The region holds substantial oil reserves. Unlike reservoirs in the United States, China, the North Sea and Russia, most African reservoirs are largely untapped. Once more and more reservoirs are discovered, African reservoirs have the potential to make significant contribution to world oil supply. The oil from most of Africa is low sulfur which is high in quality. Furthermore, the oil production from shallow-water has been declining in Africa, in the recent years most of the discoveries have been in deep water which are considered better as they are free from interference from local rebellion. Additionally, the location of most oil fields in Africa is convenient for shipment to almost all major consuming regions. Thus cumulative effect of substantial reserve, high quality and easy transportation attracts all major oil players to Africa.[9]

Sub-Saharan Africa and Global Demand.

The major consumer of African oil are the United States, Europe and fast developing countries of Asia. It is pertinent to study Africa's oil production in the light of overall global oil demand. There appears to be slow down in the growth of oil consumption at the global level. Global oil consumption grew by 0.7 per cent in 2006, the weakest growth since 2001 and half the 10-year average. Consumption grew by just around 650,000 b/d to reach 83.7 million b/d.[10] The projected oil supply for 2030 is alarmingly high. The world's energy needs would be well over 50% higher in 2030 than today. It is set to reach to 118 million b/d by 2030. The world would depend more in OPEC countries, where collective output of conventional crude oil, natural gas liquids and non-conventional oil (mainly gas-to-liquids) is projected to climb from 36 mb/d in 2006 to 46 mb/d in

2015 and 61 mb/d in 2030. OPEC’s share of world oil supply would jump from 42% now to 52% by 2030.

The developing countries would account for the most of rise in oil demand, with consumption doubling from 29 million b/d to 59 million b/d by 2030. In the demand from developing countries, Asian drivers, China and India, would demand much higher share and would be responsible for an increase of 20 million b/d, which represent more than two third of growth in all developing countries.[11] The demand from China and India would be high, the Executive summary of the World Oil Outlook 2007 explains in following words. `China and India are the emerging giants of the world economy and international energy markets. Energy developments in China and India are transforming the global energy system by dint of their sheer size and their growing weight in international fossil-fuel trade. Similarly, both countries are increasingly exposed to changes in world energy markets. The staggering pace of Chinese and Indian economic growth in the past few years, outstripping that of all other major countries, has pushed up sharply their energy needs, a growing share of which has to be imported. The momentum of economic development set to keep their energy demand growing strongly. As they become richer, the citizens of China and India are using more energy to run their offices and factories, and buying more electrical appliances and cars. These developments are contributing to a big improvement in their quality of life, a legitimate aspiration that needs to be accommodated and supported by the rest of the world.’[12]

The United States holds major interest in African oil and got enhanced importance after the US reviewed its oil sources strategy after 9/11 events. It is estimated that African oil could account for 25 percent of all US crude oil imports. [13] To the US, Africa’s oil reserve offer several advantages. It is much closer to US, mainly to the refineries located in the eastern coast than the Middle Eastern oil sources. Except for the Sudanese oilfields, Africa’s reserves are just opposite the east coast of the US. African oil are of high quality and low in sulphur suitable for refining centre on the East coast of the US. The Gulf of

Guinea is likely to become the world's leading deep water offshore production centre.

Africa's reserves also offer political advantages. A large amount of West Africa's oil is offshore insulated from domestic political or social turmoil. In Africa, political unrest in oil producing country is unlikely to take on a regional or ideological campaign like observed in Middle Eastern countries. Further, it is unlikely to have joint stoppage of oil at once by oil African suppliers as they are not united. Africa, to a larger extent, is insulated from other parts of the world especially the Middle East which still provide a large source of the US oil requirements. Any future military actions in Africa by the US will not antagonizing its Middle Eastern allies as it happened in the case of war on Iraq. It is also in the interest of the US to weaken OPEC, which could be weakened by breaking out certain African member countries from the group. In the past the US tried to convince Nigeria to quit OPEC. Additionally, many African oil producing countries are non-OPEC, thus oil production can be regulated without the consent of OPEC.

African oil is no stranger to the US oil companies. Two oil giants Chevron-Texaco and Exxon-Mobil are involved in oil operations for last several decades. There are several others like Amerada Hess, Marathon and Ocean Energy too are actively involved in Africa. However, the record of the US oil companies in Africa is far from clean. Equatorial Guinea one of the smallest producing countries is the most striking example of dubious US dealings. After successful internal lobby from oil groups the US agreed to remove it from the list of 14 African countries with a poor human rights record and open consulate there. Two third of Equatorial Guinea's oil blocks have been awarded to US operators with close ties to the Bush administration. Equatorial Guinea coastguards are trained by private. Equatorial Guniea claims that it is oil companies which keep US government informed about their country.[14]

China has emerged as a big oil player in Africa. Over the years, China has successfully catapulted itself at the Africa's third main trading partner behind the United States and France. Its trade with Africa has grown remarkably over last decade, from $2 billion in 1999 to $39.7 billion in 2005, by the end of the present decade it is likely to touch $100 billion. Its oil activity in Africa in the recent past shows aggressiveness. In 2002, the China Petrochemical and Chemical Corporation (Sinopec), a Chinese oil company, signed a contract for $525 million to develop oilfield in Algeria. In 2003, the China National Petroleum Corporation (CNPC) bought refineries for $350 million and signed a deal to explore for oil in two blocks in Algeria. In 2004 Sinopec signed a contract in Gabon under which Gabonese crude oil will be sold to China. In 2005 Angola received a $2 billion loan from China in exchange for oil deals and added another $1 billion in March 2006. In Angola, the Sinopec bought a 40 per cent stake in oil block after declaring a $1.1 billion `signature bonus' for the Angolan government.[15]

Nigeria oil is on Chinese radar. The Petrochina signed a deal with the Nigerian National Petroleum Corporation to supply 30,000 barrels of crude oil per day to China in 2005. In 2006 China agreed to pay $2.3 billion for a stake in a Nigerian oil and gas field. Nigeria further announced that it would give the first right of refusal to the CNPC on four oil exploration blocks in exchange for a commitment to invest $4 billion in infrastructure. The deal involves China buying a controlling stake in Nigerian oil refinery and building a railway and power stations. In Ivory Coast, the Sinopec holds a part of the share in oilfields off the coast. In Kenya, China reached agreement which allow the Chinese oil company to explore in six blocks covering 44,500 square miles in the north and south of the country. In Republic of Congo, the Chinese oil company have reported to have signed contract to start off shore oil exploration and production. In Namibia, the Chinese firms are involved in establishing an oil refinery and oil exploration in northern Namibia. In Sudan, Sinopec and CNPC jointly acquired drilling rights for about $600 million. The Chinese oil companies are also involved in Ethiopia, Madagascar.

China's oil diplomacy has two main goals and has incorporated Africa into its global strategy. In the short term, to ensure continuous supply to its fast growing economy and burgeoning oil demand domestically. In the long term, China wants to emerge as a key global player in the international oil market. The nature of China’s oil operation helps it to consolidate its position. China runs international oil business through its state oil companies like the CNPC and the Sinopec, which do not have to worry about overall profitability and shareholder woes in its operation like many private enterprises. It allows China to take a long term view of oil business in Africa by paying over all odds. Its diplomatic network closely works with the oil companies and in several occasion China uses all the means including huge `untagged’ aid to outbid its rivals in oil contracts. China prefers to acquire foreign energy resource with a long term contracts as well as purchasing overseas asset in the energy industry. The major consideration of China is to cut over dependence on international oil market through acquiring major stakes in Africa or safeguard access to them.

China’s adopted policies of anti-west and secondary importance to human rights consideration helps significantly in its promotion of oil business in Africa. China successfully exploits African suspicion for the West for its ‘colonial and neo-colonial’ agenda. Many African leaders criticize the West for insisting liberal democracy and respect for human rights. China has no such inhibitions for developing relations with the countries of Africa. China’s rejection of the concept of human rights as promoted by the West has found many admirers in Africa. China advocates `economic rights’ and `right to subsistence’ as main priority of developing nations and takes precedence over individual human rights as promoted by the West. For China, there is no rouge state, its dealing with Angola and Sudan is a clear example of it.

Angola is China’s second largest trading partner in Africa and is admired for its `non-interference’ stance. China decided to help Angola when the International Monetary Fund (IMF) was pressing hard for conditionality to extend new loan for reconstruction after the end of civil war. The IMF was aiming to end corruption and malgovernance with the transparency measures to improve economic management. The Angolan government, hard pressed for loan was negotiating with the IMF, however it abruptly stopped negotiations. They found new source of funding, they received a counter offer of $2 billion loan from Exim Bank, the China’s export credit agency. The loan came with an interest rate payment of 1.5 per cent over 17 year and also included an agreement to initial supply 10,000 b/d of oil which would be hiked to 40,000 b/d subsequently. [16] China also sought substantial share of construction contracts in Angola. It is estimated that in the long run, Angola would pay higher prices for the loan they obtained from China. However, Angola defended its case as the loan does not impose conditionality like many loans offered by international finance market.

Human Development Index and Oil producers

The United Nations Devlopment Programmes (UNDP) provided Human Development Index (HDI) is good measure to judge over all development of society. The HDI measures various crucial aspect of development like life expectancy, literacy, standard of living, education and GDP per capita. It is also a good measure to understand the curse of oil phenomena in oil producing countries. High on HDI, like Norway, suggest successfully warding off negative aspect of oil revenue and utilizing it for overall development of society. However, oil producers in sub-Saharan Africa are rated very low on HDI. Major oil producers like Nigeria, Angola and Sudan, which have substantial oil revenue at their disposal, are found at the bottom of HDI along with several developing countries which are not blessed with oil resources.[17] (See Table-3)

TABLE-3
Human Development Index (2007)

	HDI Ranking
Nigeria	158
Angola	162
Sudan	147
E. Guinea	127
R. of Congo	139
Gabon	119
Chad	170
Cameroon	144

Source: UNDP, *Human Development Report 2007/2008, Fighting Climate Change: Human Solidarity in a Divided World.* Retrieved on 14 April 2008 from website http://hdr.undp.org/en/

Corruption

There is rampant corruption in the oil producing states in Africa. A large part of oil wealth never reaches the coffer of the state but goes directly into the pockets of corrupt government officials. In oil wealth, chances of corruption are higher as the oil money often flow from oil companies to African rulers. The government account in the hands of corrupt government officials are manipulated. Oil wealth makes ruling elite and government officials rich much beyond their source of income. This money is laundered into banks and assets abroad.

The Trasparency Index provided by the Transparency International is a good indicator of fairness of economy. Norway finds place in the least corrupt country in the Index. However, oil producers of sub-Saharan Africa are one of the most corrupt nations in the world. (See Table-4.)

In the corruption of oil wealth, the most significant aspect is the allocation of oil bearing blocks to favoured party. The connivance of politician, bureaucratic and business interests plays central role. It starts with huge `signature bonus', an upfront amount which the oil company pays even before starting of actual bonus. Once the operation starts, the actual oil revenue is embezzled into bank accounts outside the country. There are several ways devised to stop the money to reach state coffer.

A major link in the corruption is the state oil company in Africa. All oil producing countries have organized their oil sector through state oil company which enters in some form of collaborative venture, through lease agreement or joint memorandum of understanding, with the transnational oil companies. They have production sharing agreement with the state oil company and the African governments guarantee the transnational company a minimum profit. The royalties of oil operation is received through state oil company as per the quantity of oil production. It is at this stage money is embezzled.[18]

TABLE-4

Transparency Index

	2003	2004	2005	2006	2007
Nigeria	132	144	152	142	147
Angola	124	133	151	142	147
Sudan	106	122	144	156	172
E. Guinea	-	-	152	151	168
R. of Congo	113	114	130	142	150
Gabon	-	74	88	90	84
Chad	-	142	158	156	172
Cameroon	124	129	137	138	138

Source: Trnasparency International, retrieved on 14 April 2008 from website http://www.transparency.org/policy_research/surveys_indices/cpi

The linkage between oil and corruption is clearly seen in Angola where oil revenue is handled by the President and a small clique of politicians, key officials and businessmen. The clique, called as the *fulungo*, controls much of opaque financial dealings and deployment of oil wealth. Infact, a parallel system of state revenue deployment is operated by the clique. According to the International Monetary Fund, the *fulungo*, embezzled more than 30 per cent of oil profit in 2001. The business interests are so intricately linked with the centre for power that it is almost impossible to conduct business without resorting to bribe. The government system is such that there is lack of transparency which promotes a climate of impunity for the clique. The lack of independent judiciary adds to prevalence of corruption.

The oil wealth has further allowed the President to perpetuate clientele which builds degree of legitimacy among those who receive rewards. This helps in maintining stability within government and maintain internal order. The beneficiaries are bureaucrats and military officers. Key officials are entitled to receive personalized `annual bonuses' which are more then their official salaries. The clientele is self perpetuating system in Angola as the beneficiary favours oil companies as contractual stability of oil company is basic condition for getting continuous favours.

The patronage is promoted at state expenses. The Angolan government allowed personal privileges through the state or parastatal companies. SONANGOL, the state oil company, offered its about 5000 staff range of advantage including special school and overseas medical care. The total amount of about USD $180 million was deducted from the company's overall tax paid to the government. Foreign oil companies too utilize such benefit to extend favours. The oil companies provided goods and services to key official or their philanthropic associations. In turn, these donations were deducted from companies overall tax paid to the government.[19]

The dubious role of foreign oil companies in Africa compounds the problem of corruption in Africa. The oil companies blame corruption to the nature of the business of oil in Africa. Doing oil business in Africa is fraught with risk, it involves significant political risk like ethnic strife, violence, not so smooth transfer of power and even coup d'etat. Oil projects also require larger initial investment and considerable period to actually yield profit, in all such cases paying bribe becomes imperative as there are chances of losing entire investment. However, in the cases of corruption in Africa, oil companies that elect to pay bribes too are blameworthy. If the blame lies with corrupt African rulers, stealing the oil money, the fault also lies with oil companies for bribing and otherwise abusing Africans.

Lack of Diversification/Dutch Disease

The oil resources are not renewable energy resources and it is important that the oil producing state should diversify into agriculture, manufacturing and services, the other sector of economy. However, the oil producing countries in Africa have failed to diversify their economy. Dutch disease is additional problem, it is an economic phenomenon in which windfall profit of oil resources adversely affect economy. It increases the real exchange rate as a result export sectors notably agriculture and manufacturing becomes less competitive in world market.[20] Additionally, unlike agriculture and manufacturing, the oil sector employs skilled people which is not available locally in these oil producing countries, the demand is met with expatriate workers. The inherent volatility of commodity prices hurts the poor the most, as they are least able to hedge their risks. And because the resource is concentrated, the resulting wealth passes through only a few hands—and so is more susceptible to misdirection.

Gabon suffers from lack of diversification, only one percent of total land areas is under cultivation. This is despite employing an estimated half of the workforce, the agriculture sector contribution is only seven percent. There is practically no local food production. Agricultural activities faded with the rise of oil dependence. All economic activities are concentrated in the heavily circumscribed urban centre. Gabon depends entirely on imports for its food consumer goods and equipment. Gabon, instead of investing in manufacturing preferred to built very expensive Trans Gabonese railway from Liberville to Franceville, estimated to be more than $3bn. Despite current dire prospect for economic slowdown in the face of declining oil revenues it still promotes a particular urban culture entering on the consumption of imported goods.[21]

Gabonese economy experienced Dutch disease, revenue from large oil exports led to distortions in economy. Traditional sector like agriculture, fishing, forestry and mining stagnated because they had become less attractive to investment. The 800 kilometre coastline and interior water resources provide abundant fishing opportunities, which if fully exploited could meet domestic needs and produce a surplus for export. Before the first oil boom, Gabon produced significant amounts of food and cash crops, such as cocoa and coffee. But with agriculture neglected, production stagnated. And today the country depends on imported food from Europe and ther African countries. Weak and inefficient infrastructure makes it costly to market agricultural produce. Production costs, especially for labor, are high, and productivity is low because of traditional farming methods and poor support services to farmers. A revival of the sector could go a long way towards improving the depressed incomes of rural dwellers. This has led to large migration, especially youths, to urban centre. [22]

Conflict

Oil wealth in Africa is directly related to violence in the society as different groups and faction fight for their share. Oil wealth, in many ways, creates tension within the society. The major cause of conflict is the contest to capture the oil fields and also to capture power in order to grab opportunities to indulge in corruption and amass oil wealth. There is violence also because of lack of governance and economic development

Paul Collier and Ian Bannon finds relationship between conflict and oil revenue dependence of a country. A country which exports primary commodity around 25 percent of its GDP has a 33 percent risk of conflict. However when this level is at 10 percent, the risk also drops by 11 per cent. Doubling per capita income roughly halves the risk of a civil war and each additional percentage point of growth reduces the risk of a per cent point. There is also direct relationship between conflict and ethnic and religious composition of a society. In a society where dominant group is over 45 per cent of total population, the risk of becomes one third higher.[23]

Oil wealth is central mechanism for prolonging oppression and conflict. This is particularly case for economies in decline. As oil wealth fail to keep pace with popular demand of economic development, governments often more and more rely on repression to keep themselves in power. Not surprisingly, then, oil wealth is closely associated with disproportionate militarisation. Oil producers spend much more revenue and a larger share of their revenues on their military build up and maintenance of security forces than non-mineral dependent countries.

Resources provide an incentive for civil conflict for rival groups as oil will enrich whoever controls the national government. As mentioned earlier armies are raised and maintained by oil wealth by the governments, same is true for many rebel groups who sustain expensive armies by capturing oil bearing territory and selling off the resources. In few cases rebel groups have sold the rights exploitation oil resources of territory they hope to control. In oil producing countries chances of coup attempts are higher than other countries that do not have one major resource revenue source.

The attempt to control the government was exhibited in Equatorial Guinea in 2004 when a coup plot to outs President Teodoro Obiang Nguema Mbasogo was foiled. The plot was hatched by alien mercenaries to bring back exiled leader Severo Moto to power and embezzle oil revenue. The plot was alleged to be financed by Elis Cally, an oil tycoon. The operation was led by Simon Mann, a former South African officer and was previously involved in several controversial operations all over Africa. He was supported by another 69 ex South Africa soldiers. They were arrested in Harare, when their aircraft was waiting for arms to be loaded for the operation. Another fifteen South African soldiers were arrested in Equatorial Guinea who were waiting for their fellow mercenaries to come.[24]

The Niger Delta is classic example of oil related conflicts. The Niger delta is already classified by international agencies as the world's most danger zone and equated on a par with Chechnya and Colombia. The delta has population of 27 million and covers area of 27, 000 square miles. The delta has the highest population densities in the world with 3 percent estimated population growth rate. The population is divided in to around 40 ethnic groups.

A large part of population on the delta have to deal with oil as it produces Nigeria's oil and gas. It has oil pipeline running through mangrove creeks, which measures thousands of kilometers and they are most sophisticatedly laid out. It is also scene of poverty amidst oil wealth. On the one hand oil companies run modern, air-condition facilities for their operation surrounded with barbed wire and security personnel to ward off local troublemaker. On the other hand, the local population live in primitive farming or fishing villages. There is no electricity or access to clean water for large part of population and near absence of local health facility. It is through their land oil is extracted worth billions of dollars but they are hardly benefited and are left to tackle environmental effects of oil spills.[25]

The local population on the delta resort to illegal control over oil flow station or sabotage oil pipeline, known as illegal bunkering. The process involves tapping into a pipeline, filling cans with crude oil, and using speedboats to carry oil to awaiting barges. Illegal oil through barges than are sold to large oil tankers, which finally sell it to international traders. The whole process results in running a business with large profits. The profits are so huge that organized criminal groups are involved in the whole operation. The oil companies know presence of illegal bunkering but they have no option to tolerate it because of security threat from these highly armed groups. Any opposition to illegal bunkering might result in closing of their production of crude oil. These criminal groups lure youth from local community with easy money in to the profession. These boys with no job, devoid of education and no immediate job prospect became prey of organized crime and are ready to fight with the government authorities as well as with each other. The operation of criminal groups has made navigation in sea surrounding Nigerian as world's most dangerous sea lanes. They are responsible of stealing as high as twenty percent of oil production of oil companies.

Illegal oil bunkering has even attracted international criminal nexus. The case of MT Africa Pride, an oil tanker clearly shows deep involvement of nexus between international groups and domestic roots of corruption. The Nigerian Navy seized oil tanker MT Africa Pride with 13 Russian crew which was carrying oil illegally. However, in a shocking development, the ship was mysteriously disappeared from Nigerian custody along with oil. There was another ship, MT Jimoh too was taken into custody on the charges of carrying oil illegally, disappeared. However, it was found with new name painted, MT Lord.[26]

On the one hand illegal bunkering created a security problem on the other hand the huge profit derived from illegal bunkering in the hands of organized criminal groups added to the existing security problem. Profits derived from the illegal bunkering of oil became responsible for proliferation of arms in the Niger Delta. The money from stolen oil was used to purchase AK-47 and rocket-propelled grenade launchers to bolster their criminal activities.

The involvement of these criminal groups in local political activity especially during elections worsened situation in the Delta. It has had wide repercussion on international oil prices as they go up during elections in anticipation that elections would result in renewed violence and decrease in the supply of oil. These groups are often in involved in rigging elections. They are hired, without giving serious thought as to what would gang do after the election, during election campaigns by local politicians to intimidate communities into voting in their favour and also forcefully seizing ballot boxes. The number of small arms dramatically increased during this elections. Having fought and won election under the barrel of gun these criminal group feel that elected politicians owe them something more than mere cash. They expect least interference and even impunity by the governmental authorities in their illegal activity of bunkering, kidnapping and arms smuggling.

The rivalry between criminal groups too raises violence to much higher level. The rivalry between the Niger Delta People's Volunteer Force (NDPVF) and the Niger Delta Vigilante (NDV) escalate in September 2004 and both threatened all out war in Niger Delta. The incident was responsible for fluctuation of international oil prices and attracted attention of major power of the world as oil supply was in jeopardy. It also showed the clout of criminal gang and fragile state of affairs in Niger Delta to the world. The NDPVF was a small youth militia that had started life as an illegal bunkering ring over the years transformed itself into a rebel movement. In September the NDPVF leader Dokubo Asari was abandoned by prominent local politician who even hired the NDV to cut the clout of the NDPVF. The local rivalry of criminal groups soon escalatd to higher level. Oil companies became easy target in the rivalry, Asari demanded that oil companies to take out it workers from the Delta. Shell, major oil company in Nigeria immediately took out two hundred staff. However, it captured the international headlines when the NDPVF declared war against the Nigerian state and threatened to close down oil operation in Nigeria. The NDPVF rebels paralysed the Port Harcourt operation and their escalated violence brought oil production to standstill.[27]

The development within Nigeria played havoc in international oil market. The oil prices shot up over $50 a barrel, highest ever recorded by then. The intense international pressure was mounted on President Obasanjo of Nigeria to bring situation under control in order to tame the escalating oil price. In the first instance, Nigerian government tried to deal the situation with force and sent forces to Port Harcout to bring the NDPVF under control. It bombed strong holds of the NDPVF with helicopter gunship. In the subsequent development, the NDPVF and the NDV leadership were invited to hold talk with the Nigerian government. In the talk, the NDPVF and the NDV agreed to ceasefire was asked to desist from violence in exchange of a blanket amnesty in exchange and assurance that the Nigerian troops will not target them in future. The rival groups stopped interference in oil production and the international oil prices returned to its previous level.

The role of oil companies in abetting violence is significant. They actively support armament programme of the government and supply funds to acquire armaments. Chevron, an oil company in Nigeria, alleged to have supplied Nigerian military with armament. These are aimed at suppressing civilian protest. In addition to it, the oil company raise their own security forces with the purpose to keep hooligans away from key oil installations. The role of foreign oil company in Sudan throws light on their involvement in civil war.

The operation of Talisman Energy Inc. a Canadian oil and gas producer changed the situation of cash poor Sudanese government. It took only one year after Talisman joined the consortium to boost development of the fields in Block 1 and 2 to finish a 1540 kilometer pipeline to the Red Sea, to build a new marine terminal for oil supertankers and to pump and export the first shipment of oil from Sudan. Oil revenue rose from zero in 1998 to almost 42 percent of total government revenue in 2001 making the all-important difference in projected military spending. The military spending of USD $ 349 for 2001 increased more than 60 percent of that years oil revenue. The military expenditures, which did not include domestic security expenditures, officially rose 45 percent from 1999 to

2001. This was reflected in the increasing government purchase and use of helicopter gunships, armoured combat vehicles.

In the government eyes, the centuries long local residents Nuer and Dinka of the southern oil field pose a security threat to the oilfields in Western Upper Nile/ Unity State, around which oil Blocks 1,2,4 and 5A are located. The abuse most connected to oil development in southern Sudan bas been forcible displacement- by military means- of tens and perhaps hundreds of thousand of resident in order to provide a `cordon sanitaire' for international oil companies.

In the initial years the fight started to ward off rebel forces from Block 1 and 2. The UN Special Rapporteur for Human Rights in Sudan Dr. Leonardo Franco presented a report to the UN General Assembly on 14 October 1999 in which he noted that ten-day assault by the government forces had caused many people to become displaced. On the similar line, a Canadian government sponsored human rights delegation concluded in 2000 that Sudanese government helicopter gunships and helicopter bombers have taken off from the company airstrip at headquarters in Block 2. The Sudanese army also made military use of the excellent road system installed by the oil company to move their heavy equipment like armoured personnel carrier.

However, it was made clear to the government that the present oil Blocks 1,2, and 4 would reach to their peak in few years and Sudan should open its Block 5 for operations. The fighting shifted to Block 5A between 1999 to 2002. The government sought to foment fighting within rebel groups in order to weaken them. The government forces themselves launched military offensive in 2000 in Block 5A to capture land for the construction of a secure road leading to these oilfields.

In the ensuing months of fighting tens of thousands of civilians in the Block 5A and adjacent Block 4 oil areas were uprooted. By end of July in 2000, thousands of civilians were on the move from both the pro-government militia and the rebel forces. These fight left an estimated 1,74,200 displaced as a result of the conflict between the government, its proxies and rebel factions in the oilfields. Some displaced for second or third time. In October 2002, Talisman had to give up its oil operation in Sudan under tremendous pressure from human rights groups in Canada. [28]

There is violence also because of lack of governance and economic development. The strain emerges within society because on the one hand citizens expect positive change as a result of oil wealth on the other hand the situation deteriorates. These feelings sometimes lead to separatist conflicts in the oil rich countries. As mentioned earlier, oil wealth with government is often utilized to raise army and police force to check its citizens and rival groups. The oil rich province of Angola, Cabinda is an example of demand for separatist conflict. Cabinda is an enclave which is separated from mainland Angola by a tiny strip of the Congo, which was lumped together with Angola on the eve of independence granted by Portuguese in 1975. It has different culture and identity from the mainland. Cabinda is rich onshore and offshore oil deposits which were explored even during under the Portuguese rule. For its rich oil deposit it is also referred as `Kuwait of Africa'. Oil is being taken out of Cabinda for over decades. At present Cabinda oil contributes about half of total Angolan oil production. It is estimated that oil export from the provinces are worth the equivalent of US$ 1,00,000 per annum for every Cabindan. However, there is hardly any impact on the local population who are poverty stricken. Disgruntled residents of Cabinda have given a call for a separation from mainland Angola under the leadership of the Cabinda Enclave Liberation Front (FLEC). However, the FLEC is much weaker to cause a major retaliation against the Angolan troops.[29]

Conclusions

In theory the oil wealth is a boon to economy however in practice in sub-Saharan Africa it has created and fostered repressive, corrupt, incompetent and unaccountable governments that inhibit development. Oil wealth has not been a cure, it has not alleviated poverty but instead has generated massive corruption, political instability, civil war and enormous environmental damages. Resource boom in these countries nearly always accompanied the decline in economy. Oil wealth has held back the development of other export industries. In African countries the standard of living has nearly always declined in oil producing countries. The oil producers in sub-Saharan Africa will have to learn a great deal from the Norwegian experience.

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