Oil Revenue and Development Performance in Nigeria: Cursed By Resources, Institutions or Capabilities?

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Abstract
Nigeria’s huge oil revenue has not satisfactorily impacted on the living conditions on majority of Nigerians. This ‘paradox of plenty’ lends support to the ‘resource curse’ doctrine that abundant natural resource endowment makes a country poorly focused on development. In addition to ‘resource curse’, some economists also emphasize the ‘institutional curse’ doctrine that the actual impact of natural resource endowment is conditional – it can be a ‘curse’ or ‘blessing’ depending on whether the dominant institutions support development or predation. Less talked about, however, is the possibility of ‘capability curse’ arising from weak capabilities for identifying, harnessing, and managing resources and institutions effectively and efficiently. Plausibility of the ‘capability curse’ argument is founded on the premise that efficient allocation and management of resources and nurturing the appropriate institutions are dependent on availability of a critical mass of competent and enlightened populace. The central theme of this paper, therefore, is that resource-rich countries that lack the capabilities to indigenize the processes of exploration, extraction, and refining of the natural resource are cursed. Accordingly, huge petroleum export earnings will continue to contribute less to Nigeria’s development as long as the larger share of crude oil and gas exported are produced by foreign firms through the so-called Joint Venture arrangement. Drawing on lessons from Norway’s successes in petroleum sector management, the paper argues that Nigeria needs to deliberately build human capital by paying more attention to its education and health sectors.

Keyword: Resources, Institutions, Capabilities, Oil Revenue, Competencies, Management, Entrepreneurship.

1. Background
Nigeria currently accounts for about 32 percent and 34.2 percent of Africa’s oil and gas respectively. Nigeria is also the fifth largest oil exporting country of Organization of Petroleum Exporting Countries (OPEC) and the fifth largest oil exporting country to the United States. Annual revenue accruing from oil and gas exports run into billions of naira in recent years, and since the mid 1970s consistently constitutes over 85 percent of national earnings. But there is mismatch between petroleum export revenue and development performance, as despite the huge export earnings Nigeria is among the 15 poorest countries in the world; oil revenue has not satisfactorily impacted on the living condition of majority of Nigerians (Udoh, 2002; Onoh, 1983; Oyefusi, 2009). The mismatch between petrodollars inflow and development performance contradicts the extant view in development economics that natural resource abundance would help the backward states to overcome capital shortfalls and provide revenues for sustainable development, but lends support to the ‘resource curse’ doctrine that abundant natural resource endowment makes a country lazy and poorly focused on development (Steven, 2003).
Interpreted in the Nigerian context, the resource curse thesis is premised on the argument that huge crude oil export revenue, prior to industrialization or having an active manufacturing sector, has led to the neglect of other economic sectors, created a mental attitude of easy money and carefree spending, promoted overdependence on imports, and sustained the petroleum sector as an enclave economy (Sachs and Warner, 1995).

In addition to the ‘resource curse’ thesis, some economists also emphasize the ‘institutional curse’ argument that the actual impact of natural resource endowment is conditional – it can be a ‘curse’ or ‘blessing’ - depending on whether the dominant institutions support a ‘development state’ or ‘predatory state’. The ‘development state’ focuses on the needs of generality of the people, while the ‘predatory state’, dominated by extractive institutions, serves principally the interests of corrupt elites in power. Scholars in support of the ‘institutional curse’ arguments point to the fact that most resource-rich countries that have escaped ‘resource curse’ have effective and efficient institutions. Such countries include Norway, United Arab Emirate (UAE), Kuwait, among others, while Nigeria and Sudan are classic examples of resource-cursed countries.

Less talked about is the possibility of ‘capability curse’ that could occur when a country lacks the requisite capabilities for identifying, harnessing, and managing its resources effectively and efficiently. The plausibility of this ‘capability curse’ argument is founded on the premise that efficient allocation and management of resources, and nurturing the appropriate institutions, are dependent on availability of the appropriate capabilities. A resource-rich country may copy or adapt laws and governance strategies that work elsewhere and still remain poor because the capabilities required for indigenization of innovations and knowledge either do not exist or are inadequate. The central theme of this paper therefore, is that resource-rich countries are ‘cursed’ when they lack appropriate capabilities to indigenize exploration, extraction, and processing of the natural resource. Accordingly, huge petroleum export earnings will continue to contribute less to Nigeria’s development as long as the larger share of crude oil and gas exported are produced by foreign firms through the so-called Joint Venture arrangement. This paper argues further that the problem is not necessarily with the natural resources, the legal framework that governs the petroleum sector or the ownership structure, but with weak capabilities for making things work.

Social malaises like corruption, rent seeking, religious and ethnic violence, and so on are no doubt major problems in Nigeria, as is in varying degrees in other countries. Indeed, it is a historical fact that more countries tend to transit faster towards national rebirth when faced with extreme deprivation associated with wars, famine, natural disaster, pervasive corruption, and so on; such transitional moments can be seen in the histories of Norway, China, India, Japan, Israel, among others (Acemoglu, et. al. 2002). The key difference between high-performing and low performing countries, this paper believes, lies in the stock of capabilities that a country has, and a country that has deliberately empowered its population with sound healthcare and education stands a better chance of escaping ‘curses’ from natural resources and institutions. Specifically, a resource-rich country that fails to indigenize the extraction and processing of the natural resource is cursed.

The remaining part of this paper examines the trilogy of economic development, the capabilities curse thesis, capabilities curse in Nigeria’s petroleum sector, and lessons from the experience of Norway in the effective and efficient utilization of its petroleum resources.
2. The Trilogy of Economic Development

Economic development is a process whereby an economy's real national income as well as per capita income increases over a long period of time. This process implies the impact of certain forces: principally resources, capabilities, and institutions. Resources include natural endowments, accumulated capital, and cultural assets. Resources are the basic inputs to explore or discover, harness, and transform or process to produce goods and services for satisfying human needs. Institutions are the organizational set up, laws and norms, and cultural milieu that subsist over time and embody changes in the dynamic elements of the society. Institutions set the rules of conduct and the reward system, and by so doing determine acceptable behavior and criteria for success. Capabilities are the technologies, skills, knowledge, and more generally competencies that define an individual’s or a people’s aptitude and attitude to work and life. The outcome of economic development include changes in the structure of demand for goods and services, in the level and pattern of income distribution, in size and composition of population, in consumption habits and living standards, and in the pattern of social relationships and religious dogmas, ideas and institutions. Economic development is equally composed of complex chains of changes in fundamental factors and structures of supply and demand, leading to a rise in the net national product of a country in the long run (Somashakar, 2006).

Figure 1: Trilogy of Economic Development
The three sets of factors responsible for economic development - capabilities, resources, and institutions - are shown in Figure 1 above. Economic development is sustainable when needs of the present are met without compromising the ability of future generations to meet their own needs. The two key concepts important for sustainability of development are those of needs and limitations: firstly, development has to address the changing needs of people; and secondly, the process of development is not without limitations and obstacles, and the choices we make have opportunity costs (Somashakar, 2006).

Institutions influence economic outcomes, but differ markedly across countries and changes over time depending on what the society perceive to be right or appropriate. Large changes in institutions are correlated with radically changed growth paths. Institutions are created, nurtured, sustained or changed by people, and an institutional framework is as ‘intelligent’ and functional as its founders and managers. Resources have three main characteristics: utility, limited availability and potential for depletion or consumption, and it takes the appropriate capabilities to identify, discover, extract, process, and manage the usage or consumption of natural resources. Capabilities constitute the dynamic human resources component that drives institutions and natural resource extraction and utilization. Effective and efficient natural resource exploration, extraction, production, and processing require the appropriate capabilities. It is equally unthinkable to have sound institutions in a society with weak capabilities. The antonym of capabilities is inability or weakness.

Capabilities are both generic and specialized. Generic capabilities are abilities to perform tasks and achieve success generally, while specialized capabilities are core competencies in mostly high-tech areas. The basic requirement for building the appropriate capabilities are sound education and healthcare. What is involved is developing the individual’s natural potentials to make him/her creative and adaptable to changes in an evolving world. In this context therefore, capability building is synonymous with accumulation of human capital. The core capabilities to build can be grouped under the following:

- **Manpower** – abilities in terms of the number of people available or needed to work, and abilities supplied by the physical work of people rather than machines.
- **Technology** – abilities for study, application, and development of tools and methods, and machines for manufacturing and productive processes, and the culture of practical knowledge and explorations.
- **Management** – abilities for administration of businesses – organizing, controlling, and leadership, team spirit, crisis management, and resource allocation and management.
- **Entrepreneurship** – abilities to take risks, being venturesome, and manage finances.

Building human capital goes beyond mere schooling and building hospitals; the curriculum, teaching/learning infrastructures and environment, years of schooling, access to quality healthcare and health information, and adequate appropriate nutrition (particularly for children) are all important. It is important also to ensure development of a combination of generic and specialized competencies. Key among the generic capabilities are emotional competencies, languages, the arts, history, basic vocations, and ICT skills. The specialized capabilities should take into account current and future development needs of the society and adaptability. It is inability to invest deliberately on building capabilities (both generic and specialized) that has caused Nigeria to be ranked among the poorest countries despite its huge petroleum export earnings (Essia, 2012a, 2012b).
3. The Capabilities Curse Thesis
Lessons from experiences of the ‘Asian tigers’ indicate that the East Asian ‘miracle’ was indeed an ‘education miracle’, and economic development in East Asia is human capital-led. All the high performing East Asian economies continually invest deliberately on education and healthcare. Commitment to sound education particularly improved health practices, influenced demographic patterns, and contributed to a better quality of life and wholesome prosperity. Education also has a major role in the eradication of both undernourishment and preventable morbidity; by raising employability and business start up, purchasing power increases and more people are able to afford good food and medicine, and enlightenment promotes utilization of public health services and generate more effective demand for such services to be provided (Essia, 2000; Tilak, 2002).

Growing the effective demand for modern health services is very essential in Nigeria because strong belief in (or fear of) witchcraft and other unseen evil forces has grown side-by-side with modernization. Many, even among the most educated, believe that illnesses are spiritually induced, and routine medical check-up are uncommon. Self-medication is predominant, and sale of all kinds of drugs is poorly controlled or regulated. People mostly guess the possible causes of their ailments and buy the drug they consider most appropriate. Early care for children appears to be the most affected, as parents often experiment with what they think to be right. Children are not only believed to be gift from God, but also those that God would care for most, and despite the popularization of longer months/years of exclusive breast-feeding, many women stop breast-feeding too early either because they care more about maintaining the shape of their breasts or because they need to go back to work. Many also start too early to feed babies on adult food because heavier food is believed to make the babies sleep more or cry less. A number of children die during childhood, and many survivors grow up poorly nourished and stunted; with poorly developed brain cells and intellect, weak bone thresholds, and low immunity to common ailments. This makes it very difficult for many young Nigerian to compete globally in activities that demand exertion of mental and physical energy over long periods. The initial conditions for accumulating capabilities are therefore generally unfavourable for many Nigerians (Essia, 2012c; Ajala and Edimo-Ubong, 2010).

In addition to the difficult childhood many Nigerians face due to ignorance and poverty of their parents, young adults also face the risk of malnourishment, deprivation, and abandonment. Many youths in Nigeria constitute what Essia and Ayara (2012) describe as the ‘active poor’ population. These are those who due to early demise or morbidity of one or both of their parents, grow into adulthood without good education, healthcare, parental love, and sound social culturing. Consequently, they generally lack the emotional and mental resilience to fit into the fast moving knowledge economy either as employees or as entrepreneurs starting their businesses. The ‘active poor’ is easily drawn into vileness, crime and rent seeking. In addition to being victims of a demographic misfortune (arising from low life expectancy and high morbidity rate), many ‘active poor’ who find their way to school are quite often neglected by an insensitive and ill-equipped educational system that is unduly competitive, and hardly takes into account the initial conditions of disadvantaged children. The educational system in Nigeria is generally associated with certificate inflation, poor curriculum development, and inadequate commitment to non-formal/vocational training and informal learning. The ‘active poor’ are again victimized by cultural deficits occasioned by globalization and growing scare of witchcraft that tend to skew attention and empathy away from orphans and other disadvantaged children who are generally prone to witchcraft labeling (Essia, 2012c).
The ‘active poor’ population in Nigeria has not been determined, but the fast growing informal economy, high rate of unemployment, and large number of persons living below USD1.00 suggest that the number is high and increasing. A number of those in the elite class today were recruited from the ‘active poor’ population, and for such persons even after passing through years of formal schooling, the nostalgias of their painful past, their poorly developed emotional and mental capacities, and physical bodies that are highly vulnerable to illnesses make them generally non-resilient and incapable of accomplishing tasks requiring deep intellectual and physical energy. The result is that over the years many presidents, governors, legislators, council chairmen, and other office holders become very sick soon after being appointed or their past poor health condition worsens due to unfavourable initial conditions. The foundation for building capabilities is generally weak, which explains the scarcity of success in both the public and private sectors. Successes come more as miracles, while failure becomes the norm. Under such conditions, it has become difficult to source the manpower, managers, technologists, and entrepreneurs required for indigenizing development and supporting the ‘development state’ from within. Corruption and rent seeking, in both the public and private domains, are in the circumstance attractive because they are mentally less tasking but nonetheless provide channels for easy flight from poverty.

The Table 1 below reviews Nigeria’s progress in each of the HDI indicators between 1980 and 2011. Nigeria’s life expectancy at birth and expected years of schooling increased by 6.4 and 2.2 from 1980 to 2011 respectively, while GNI per capita increased by about 30.0 per cent. In term global comparatives, Nigeria belongs to the low HDI category with HDI value below 0.50.

<table>
<thead>
<tr>
<th>Year</th>
<th>Life Expectancy at Birth</th>
<th>Expected years of school leaving</th>
<th>Mean years of schooling</th>
<th>GNI per capita (2005 PPP$)</th>
<th>HDI value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>45.5</td>
<td>6.7</td>
<td></td>
<td>1,597</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>45.9</td>
<td>8.5</td>
<td></td>
<td>1,223</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>45.6</td>
<td>6.6</td>
<td></td>
<td>1,271</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>45.1</td>
<td>7.1</td>
<td></td>
<td>1,286</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>46.3</td>
<td>7.8</td>
<td></td>
<td>1,289</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>49.0</td>
<td>8.9</td>
<td>5.0</td>
<td>1,530</td>
<td>0.429</td>
</tr>
<tr>
<td>2010</td>
<td>51.4</td>
<td>8.9</td>
<td>5.0</td>
<td>1,990</td>
<td>0.454</td>
</tr>
<tr>
<td>2011</td>
<td>51.9</td>
<td>8.9</td>
<td>5.0</td>
<td>2,069</td>
<td>0.454</td>
</tr>
</tbody>
</table>

Source: UNDP (2011)

In the absence of the requisite generic and specialized capabilities to produce, the economy relies on imports. Import dependence is exacerbated by the easy money from huge petroleum exports earnings. Indeed many analysts believe that Nigerians would have had good reasons to do more deep thinking if there was no oil wealth. But oil revenue has made politics the most lucrative business and, rather than work in their specialized areas, the best doctors, lawyers, engineers, economists, lecturers, etc., have abandoned their professions for politics where they become disguisedly unemployed. So in addition to skewing attention away from human capital building, the petrodollars have caused further skill loss in the productive sector, in terms of the opportunity cost of professionals abandoning their productive activities for politics. Those who fight their way into political reckoning do everything, including weakening institutions, to remain in power. Others who decide to remain in the private sector quite often maintain
strong political links. There are indeed few private businesses that do well in Nigeria now without regular government patronage.

The stock of capabilities, and how it is deployed, is at the core of determining whether resource endowment is a ‘curse’ or ‘blessing’. Equally institutions - whether political, economic, legal or cultural – perform better and become increasingly relevant to development when more people in the society have the required generic and specialized capabilities. With the appropriate capabilities, an increasing number of public officers and political appointees will find it more rewarding to serve creditably, and private operators will consider politics less attractive. With the appropriate capabilities, institutions will become more development oriented as the electorates become more intelligent and demanding. So rather than focus on the curse of resources and institutions, it is more realistic and functionally relevant to address the acute shortage of competencies, referred to here as ‘capability curse’.

Capabilities have positive impact on how resources and institutions are deployed and managed towards achieving the overall goals. Capabilities enable countries to effectively and efficiently align the people’s needs with available resources and discover more resources continually, while at the same time managing crises and problems arising in the operating environment. High performing countries emphasize capabilities to a far greater extent than low-performing countries. This implies that capabilities are the main drivers of development performance. This paper argues therefore that Nigeria needs to deliberately build generic and specialized capabilities as the basis of defining its strategic direction, as alignment of capabilities and strategic planning is a prerequisite for high performance.

4. Capabilities Curse in Nigeria’s Petroleum Sector
The mismatch between petrodollars inflow and development performance in Nigeria has been the research interest of many political economists and development experts. Using GDP per capita as indicator of economic development, it can be argued that Nigeria de-developed between 1960 and 2010, and currently over 60 percent of Nigerians live on less than US$1 per day. The oil and non-oil sectors have suffered from mismanagement, and inconsistent and ill-conceived policies. Along with these is massive growth of “informal sector” economic activities, estimated by some to be as high as 75 percent of the total economy (Wikipedia, 2012a). At the macroeconomic level, oil dependency has been associated with the recycling of earned revenue to consumer goods imports. This is coupled with excessively high production costs that cripple domestic production and causes low capacity utilization (African Economic Outlook, 2012).

The petroleum sector has remained an enclave economy decades after the Nigerian National Petroleum Corporation (NNPC) was established. NNPC was established in 1977 and charged with regulating and supervising the oil industry (upstream and downstream) on behalf of the Nigerian Government. But it is hard to say that NNPC has lived up to the expectation of its founders. NNPC’s exploration and production subsidiary, National Petroleum Development Company (NPDC) currently produces only 15,000 bpd out of the about 2.5 million bpd that Nigeria exports. To be able to produce that low quantity of oil, NPDC actually relies on the technical expertise of several foreign firms! NNPC relies on the Joint Venture (JV) arrangement with the multinationals for the upstream operations, while much of the finished products consumed in Nigeria are imported and heavily subsidized by Government. NNPC basically zeros its operations to collecting oil and gas export earnings, on behalf of the federal government, in the upstream and managing subsidies on finished products importation in the downstream. Busying itself with such
simplistic administrative operations, NNPC does not appear committed to building its capacity for independent exploration and production (Wikipedia, 2012b; Odularu 2008).

Available evidence indicates however that an effective and efficient NPDC can deliver crude oil at a price as low as US$12 from onshore fields and US$18 from offshore fields. At such prices, investors would be attracted to establish many refineries and Premium Motor Spirit (PMS) or petrol would, for instance, be produced and supplied at not more than N30 per liter without any form of subsidy. The profit margin from export of crude oil will increase, more jobs would be created in both in the upstream and downstream petroleum sectors, and there would be a multitude of value chains linking the petroleum sector to other sectors of the economy. Under such circumstances subsidies would be unnecessary, incidences of oil theft and illegal bunkering would reduce substantially, and NNPC would be better placed to negotiate with foreign oil companies (Nwokeji, 2007; Wikipedia, 2012b)

Government is obviously concerned with how to get the petroleum sector to contribute more to the economy. But policies have primarily focused on unbundling the NNPC and privatize/commercialize its operations. The critical issue of building domestic capacity for exploration and production, and setting timelines for a review of the current JV arrangement, is not considered seriously. Rather, it is taken for granted that privatization/deregulation is the best means of dealing with inefficiency and corruption in the oil sector. However, privatization does not always present sustainable and balanced solutions globally, and evidence of how privatization has supported development in Nigeria is scanty. Besides, the assumption that the private sector in Nigeria has competencies for managing enterprises sustainably has so far not been supported with facts, and yet the indispensability of government as prime mover of development is not in any doubt.

There are good reasons for active government involvement in Nigeria’s oil sector. Firstly, mineral resources belong to the State and the revenues at the first instance accrue to the Federation Account. Secondly, development requires an increasing supply of energy for which the petroleum sector is a major source, and thirdly, oil market shocks have enormous implications for macroeconomic stabilization globally. Privatization apologists however point to the fact that large windfall of oil revenues has led generally to poor decision-making by governments. But poor decision-making in both the public and private sector is more seriously indicative of weak capabilities than anything else. Government failure ought not to be the excuse for privatization because the private sector would still need to be regulated by government.

There is no substitute for a government that has capacity to intervene in any sector when it becomes necessary. This of course implies availability of the appropriate capabilities, and among the sets of capabilities entrepreneurship and management seem to be the ones that are most deficient. In the absence of appropriate capabilities, decisions and policies are based on wild guesses of the leaders, and where the electorates are less demanding (due also to weak capabilities) government is not under pressure to deliver. Budgets and plans are rarely respected, and government spending chases politics (Bagirov, 2007). With weak commitment to accountability and transparency, corruption and rent seeking become rewarding and difficult to check. Corruption and rent seeking are no doubt bad for the economy, but a more serious problem in Nigeria is that a large part of the stolen funds are either wasted or put into wrong investments due largely to weak capabilities. The outcome of corruption would have been less destructive if more stolen funds were put into productive investment, rather than conspicuous consumption or building up of foreign bank accounts.
For Ushie, Adeniyi and Akongwale (2012) Nigeria is considered to be a classic example of the contradiction between natural resource abundance and perverse economic development outcomes (or the paradox of plenty). It has realized over US$ 600 billion in oil revenues since 1960, a figure greater than the resources used by the Marshall Plan in rebuilding Europe after World War II, and is currently the 8th highest net oil exporter in the world. But Nigeria is ‘cursed’ by weak capabilities, and the paradox of plenty manifests in poorly thought-out investment decisions and weak capacity for managing the political economy and its institutions.

5. Petroleum Sector Management in Nigeria: Lessons from Norway
Mehlum, Moene and Torvik (2008) trace Norway’s success in achieving high growth and low income inequality despite its vast natural resources to sound institutions, early industrialization and late oil discovery, long and stable tradition of democratic rule, and a well functioning state bureaucracy. Wasteful tendencies in Norway were checked by democratic governance, based on broad political representation with checks and balances from demanding electorates that could not be taken for granted.

Table 2 shows comparative human development statistics of Nigeria and Norway. Primary school enrolment rates were high in both countries, although the quality of education was far higher in Norway than Nigeria. Carbon emission rate was quite high in Norway (10.5) and nearly insignificant in Nigeria (0.6); CO2 emission is indicative of high level of industrial activities and Norway is contributing more to greenhouse gases emission than Nigeria.

Table 2: Comparative Human Development Statistics for Nigeria and Norway

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Nigeria</th>
<th>Norway</th>
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<tbody>
<tr>
<td>School enrolment rate (primary school)</td>
<td>83% 2010</td>
<td>99% 2010</td>
</tr>
<tr>
<td>CO2 emission rate (metric ton per capita)</td>
<td>0.6 2008</td>
<td>10.5 2008</td>
</tr>
<tr>
<td>Poverty headcount ratio at national poverty line (%) of population</td>
<td>68% 2010 54.7% 2004 64.6% 1996 34.1% 1992 43.0% 1985</td>
<td>No Norwegian lives below the poverty line</td>
</tr>
<tr>
<td>Improvement in water source, rural (% of rural population with access)</td>
<td>43% 2010 42% 2009 42% 2008 41% 2007 40% 2006</td>
<td>100% 2010 100% 2009 100% 2008 100% 2007 100% 2006</td>
</tr>
<tr>
<td>Life expectancy at birth, total (years)</td>
<td>51 2010</td>
<td>81 2010</td>
</tr>
<tr>
<td>GNI per capita, Atlas method (current US$)</td>
<td>$1,200 2011</td>
<td>$88,890 2011</td>
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No Norwegian lived below the poverty line between 1985 and 2010, but the percentage living below poverty line in Nigeria grew from 43 percent in 1985 to 68 percent in 2010. Equally, access to improved
water source was 100 percent in Norway and less than 50 percent in Nigeria. Life expectancy at birth was 81 years in Norway and 51 years in Nigeria. Lastly GNI per capita was USD88,890 in Norway and USD 1,200 in Nigeria.

Table 3 compares the Corruption Perception Index figures of various years for Nigeria and Norway. Norway was ranked 6th in 2011, while Nigeria was 143rd along with Azerbaijan, Belarus, Comoros, Mauritania, Russia, Timor-Leste, Togo, and Uganda.

Table 3: Corruption Perception Index; Nigeria and Norway

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</thead>
<tbody>
<tr>
<td>Norway</td>
<td>8.6</td>
<td>8.5</td>
<td>8.8</td>
<td>8.9</td>
<td>8.8</td>
<td>8.7</td>
<td>7.9</td>
<td>8.6</td>
<td>8.6</td>
<td>9.0</td>
<td>6</td>
</tr>
<tr>
<td>Nigeria</td>
<td>..</td>
<td>1.6</td>
<td>1.4</td>
<td>1.6</td>
<td>1.9</td>
<td>2.2</td>
<td>2.2</td>
<td>2.7</td>
<td>2.4</td>
<td>2.4</td>
<td>143</td>
</tr>
</tbody>
</table>


Figure 2: Index of Economic Freedom; Nigeria and Norway

Figure 2 shows Index of Economic Freedom for Norway and Nigeria; Norway has a score of 68.8 while Nigeria scored 56.3. The recent UNDP Human Development Index indicates that Norway is today among the countries creating the highest welfare to its population. Yet among the three major Nordic countries - Norway, Sweden, and Denmark - Norway had the lowest income in 1900, and it remained so until the early 1980s. Today, following Saudi-Arabia and Russia, Norway ranks as the third largest petroleum exporter in the world. The main reason why Norway's natural resources have been a blessing rather than a curse finds its explanation within the quality of leadership and policy decisions it generates. Equally strong labour movements promoted a political system ensuring that the resource wealth benefited broader
groups of the population. Thus, when the oil era came, the institutions of Norway were already well prepared to ensure that the resource wealth promotes the well being of Norwegians. In addition, new institutions were created to ensure sustainable use of the resource wealth. Contrary to the experiences of Nigeria, oil wealth was equitably distributed instead of being wasted unproductively or corruptly extracted by politicians (Wikipedia 2012a, 2012c).

Mehlum, Moene and Torvik (2008) and Austvik (2011) further observe that early industrialization and late discovery of oil allowed Norway to have an institutional apparatus for managing monies productively. Moreover, Norway’s sound political institutions and long history of civil struggles is supported by demanding electorates, and in 1970 the Norwegian government laid down the following "Ten Commandments" for the management of its emerging oil sector:

1. That national management and control must be secured over all operations on the Norwegian continental shelf.
2. That petroleum discoveries are exploited in a way which minimizes Norway's dependence on others for crude oil supplies.
3. That new industrial activities should be developed on the basis of petroleum.
4. That development of an oil industry must take the necessary account of existing industrial operations and of protecting nature and the environment.
5. That flaring of usable gas on the Norwegian continental shelf must not be accepted except for brief periods of testing.
6. That petroleum from the Norwegian continental shelf must, as a main rule, be landed in Norway with the exception of individual cases where national policy concerns call for a different solution.
7. That the state becomes involved at all appropriate levels, and contributes to a coordination of national interests in the Norwegian petroleum industry as well as the creation of an integrated Norwegian petroleum community which sets its sights both nationally and internationally.
8. That a state oil company be established to take care of the state's commercial interests and to maintain suitable collaboration with domestic and international petroleum interests.
9. That a pattern of activity be selected north of the 62nd parallel [i.e., outside the North Sea] which satisfies the special policy concerns that apply in this region.
10. That Norwegian petroleum discoveries on a large scale could add new dimensions to Norway's foreign policy.

The Ten Commandments sought principally to indigenize the petroleum sector and ensure sound management of oil wealth. The commandments are indicative of the commitment of Norwegian people to make growth in the petroleum sector inclusive and sustainable. Norway’s commitment to active state involvement and control contrast with preference for privatization in Nigeria, even when the industrial base is far less developed. In Norway, rather than promoting inefficiency and corruption, government involvement has assured broad participation and the building of technical competencies in all aspects of offshore exploration, drilling, and production in addition to most aspects of onshore supporting technology and services. Lujala (2007) believes the challenges Norway faced with deep sea drilling was a blessing as it stimulated more learning, researches, and technology accumulation. Besides offshore oil installations are easier to protect, the operations of an oil field can be more or less independent from activities onshore, and has less risks of violent conflict in a country.
The stable democratic system of Norway contributed to ensuring that proceeds from the petroleum sector did not derail growth and that the money was used to fund social spending. Norway has a parliamentary political system, and elections are based on proportional representation, which tends to achieve a broader representation of the interests of society than Nigeria’s majoritarian systems where a single party can win all the seats. In parliamentary proportional representation, the winning party is increasingly compelled to form functional coalitions and alliances. The executive body in Norway has its basis in parliament and the possibility of a vote of no confidence in parliamentary regimes puts veto players in a strong position to intervene when anomalies crop up. But the Nigerian system makes the president/governors very powerful and difficult to be checked by parliament. Unlike Nigeria’s system where the traditional rulers are not given constitutional roles, Norway’s monarchy has some constitutionally guaranteed veto powers. Clearly, in Norway, sound capabilities enabled them to craft out a governance structure that blends its traditional monarchy with modern parliamentarianism.

In Nigeria, state governors and the president enjoy absolute immunity, and the Constitution stipulates very difficult conditions for their impeachment. The legislators and judges cannot be impeached, but there are impossible conditions for a recall of legislators by the constituency members they represent. In Norway there is no absolute immunity, and the law allows for any members of parliament or judiciary arms to be impeached. A committee made of selected Supreme Court judges is empowered to adjudicate over impeachment requests. Aside that the bi-cameral legislature Nigeria operates is quite expensive, the empirical literature supports the view that legislators in majoritarian systems (like Nigeria’s) tend to push for geographical spread of projects instead of strategic national interest (Milesi-Ferretti, Perotti and Rostagno, 2002; Persson and Tabellini, 2004; and Alesina and Glaeser, 2004). It is also interesting to note that mismatches of revenues with development performance are more a common feature in democratic countries with presidential democracy than those with parliamentarianism (Andersen and Aslaksen, 2008).

It is important to stress that sound governance in Norway was facilitated, and is sustained, by the high level of education and enlightenment of the population. Norway has strong citizens based groups and labour unions and a highly informed and demanding electorate that can throw out a bad government at any time. Unlike Nigeria where the labour unions focus basically on the subsistence of its members, the populace in Norway having overcome poverty can focus on the strategic needs for long term development. It is ironic, for instance, that In spite of being a major oil exporter Norway has among the world’s highest gasoline prices. Norway uses the US per liter gasoline price as its benchmark price, which covers the world market price, industry costs (plus profits), and local taxes. But while the price of gasoline remains globally competitive, Norway has the highest share of public health provision to GDP. Like Norway, the cost of fuel in Nigeria hovers around the US benchmark price, but unlike Norway health and education services have remained very poor in Nigeria.

Norwegians rightly see petroleum in the earth as mere endowments, and the sinking fund accumulated from petroleum exports proceeds is treated as the wealth. The sinking fund is actually a Pension Fund for all Norwegians created in 1990, and should oil dry up today the Norwegians have what to fall back on. A certain percentage of the interests generated from investing the Fund are withdrawn to specifically support social welfare and human development programmes, while non-oil revenues are spent on other activities and sectors. The total value of the Fund was about 400 billion USD in 2005. Withdrawals from the Fund are based on strict guidelines referred to as the “decision rule”. Nigeria is still tinkering with the idea of a Sovereign Wealth Fund, but there is the Excess Crude Account (ECA) where oil export earnings
in excess of the budget benchmark are deposited, and there are no strict guidelines for withdrawals from the ECA. Clearly strong capabilities for efficient management of petroleum wealth in Norway explain why the petroleum wealth has become a blessing rather than a curse. Efficient management in Norway was sustained by the following enablers:

- Early industrialization and late discovery of the oil wealth;
- Better institutions, more democracy, higher initial income levels, and a highly demanding civic society and electorates;
- An inclusive constitutional parliamentary, proportional representative monarchy, with diverse groups having veto powers, and without absolute immunity for heads of the executive, legislative, and judiciary arms;
- Commitment to human capacity development and a comprehensive welfare state, promoting equitable distribution of income;
- Establishment of the Petroleum Fund helped the Norwegian society to distinguish between wealth and income, and in the more sustainable use of the oil money.

4.1. Resource or Institutional Curse as Conditional

Brooks and Kurtz (2012) have argued that countries with higher stocks of human capital (capabilities) are better able to adopt and own the newest technology that enhances growth. This view is shared by Benhabib and Spiegel (1994), Lall (1996), and Nelson and Phelps (1966). The literature also establishes strong links between the stock of capabilities and level of poverty; access to quality education and health care reduces poverty more sustainably and faster than direct cash transfers and subsidies, and creating positive incentives for entrepreneurial growth is crucial to determining whether resources become a ‘curse’ or a ‘blessing’ (Mehlum, et al. 2006; Robinson, et al. 2006; and Snyder. 2006). That sound capabilities guarantee sustainable development is confirmed empirically in the Norwegian case, where oil profits was used to build the human capital base, and how the appropriate capabilities eased indigenization of the petroleum sector (Engen, 2007). Commitment to human capital building has been poor in Nigeria, which largely explains why Nigeria’s petroleum industry has remained an enclave, largely alien and import dependent, economy. The appropriate capabilities condition the oil wealth to become a blessing, while addiction to oil revenue makes it a curse. One can only imagine what it would look like if oil dries up in Nigeria now; oil revenue constitutes over 90 percent of export revenue, and activities of government at all levels are centered around oil revenue accounting.

Conclusion

Overdependence on oil revenue, despite the exhaustible nature of crude petroleum has made it difficult for Nigeria to transform its economy progressively. Rather oil wealth has generated negative externalities and rent-seeking problems, while other productive sectors remain neglected. The struggle to ‘capture’ oil revenue has promoted and sustained conflicts, sundry corrupt practices, and sectionalism that are unhealthy for national development. Access to easy money hurts innovative activities because the society has not put itself under any kind of pressure to produce, and the genuine innovators rarely have established lobbies and connections to impress their desires and expectations on the Government. Rent seeking activities become much easier to engage in and people’s talent and effort are laundered on them instead of productive investments. Moreover, corruption creates inequalities in opportunities and, along with the shrinking of opportunities due to retardation of production, heightens the struggle for more opportunities within the rich class and frustration among the poor. The trend can be reversed in the medium and long term if government becomes more committed to human capital accumulation; putting the appropriate infrastructures in place, rendering education and healthcare accessible and affordable, and
rolling out a regime of incentives to promote public buy-in are the minimum Nigeria needs to secure a better future.

References


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