

## **Reconstructing Economic Governance after Conflict in Resource-rich African Countries. Learning from Country Experiences**

**Edited by Karl Wohlmuth**

**with the assistance of Katrin Dorow and Tino Urban**

On behalf of the Research Group on African Development Perspectives and the Co-operative Research Project "Governance and Social Action in Sudan after the Comprehensive Peace Agreement of January 9, 2005"

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## Foreword and Acknowledgements

By Karl Wohlmuth

This book is the outcome of research work undertaken by the Research Group on African Development Perspectives Bremen and by the Cooperative Research Project on “Governance and Social Action in Sudan after the Comprehensive Peace Agreement of January 9, 2005”. The research results were presented at a workshop in November 2006 in the University of Bremen. All these research activities are supported by IWIM, the Institute for World Economics and International Management at the University of Bremen, an institute that is doing research work and training on developing and transition countries since decades. The focus of IWIM is increasingly strong on Africa and its development perspectives.

The conference started in Bremen’s leading museum on history and current developments in the Third World, the Overseas Museum Bremen and was continued in the meeting hall of the president of the University of Bremen. The University of Bremen is highly interested in all forms of cooperation with universities and research institutions in African countries, and therefore the event of this conference with so many guests from Africa was highly welcomed by the President of the University. The University of Bremen is now among the top universities in Germany in regard of research funds that are contracted from outside per professor, and it got just recently again funding from the Excellence University Joint Initiative of the Federal Government of Germany and the Countries’ States of the Federation. The Research Clusters supported by this funding have also to do with international affairs and with current development problems.

The reaction to the Call for Papers for this Workshop was great, and the conference became a forum to share the insights and experiences on a very important topic. This was done on the basis of the research experience, the proven competence and the practical experience of our participants. Various scientific disciplines played a role in the workshop, and the focus was not only put on economic issues, but also on political, legal, administrative, and social ones. Important issues were analysed, country cases were compared, but during the entire conference priority was given to the implementation of reforms in those countries affected by ongoing or prior conflicts being richly endowed with natural resources.

In order to present the results of the conference as quickly as possible it was decided by the participants and the contributors of papers to publish a collection of Policy Briefs what could be achieved in a rather short period of time. The book was published and received great international interest (see Wohlmuth, Karl/Tino Urban, Eds. ,2007, *Reconstructing Economic Governance after Conflict in Resource-rich African Countries*, Schriftenreihe des Instituts für Weltwirtschaft und Internationales Management, Band 15, Berlin: LIT Verlag, 293 pages). In order to inform the public about the individual country cases discussed during the workshop we now publish a second book that is structured along reports on the country experiences of those countries that suffered from conflict, that are still amidst conflict or that could end the conflicts by a peace agreement (howsoever fragile these agreements in effect are). But we considered even the case of countries where conflict could be prevented and peace could be maintained by a dispute settlement agreement (to overcome the border conflict between Cameroon and Nigeria).

Although this book is structured basically along the cases discussed at the workshop there is an Introduction in Chapter 1 to present a Framework for Analysis and for Policy Interventions for such countries. In this Framework conditions for governance reforms, and especially for economic governance reforms, are discussed for such countries. In Chapter 2 various country case studies are presented (for Cote d' Ivoire, Democratic Republic of Congo, Angola, and the already mentioned case of a dispute settlement agreement between Cameroon and Nigeria). These cases show quite huge differences in terms of the conflict cycle and conflict intensity, with regard to causes, forms and consequences of war and conflict, with regard to paths to peace and reconstruction efforts, and also with respect to progress on governance reforms. In Chapter 3 the case of Sudan is considered, and the focus is especially put on South Sudan and on Darfur. The roles of oil and aid are discussed for Sudan, but also the complex causes of the many interconnected crises and the chances to solve the severe problems of Sudan. All these issues are considered in the wider context of resource abundance and resource competition. For South Sudan and for Darfur the interest in sharing oil revenues and international aid flows is obvious, but oil revenues and aid flows create also new governance needs and responsibilities. Chapter 4 is considering the case of Nigeria, and there are studies of the overall policy issues and reform needs of Nigeria as well as of the determinants of and solutions for the Niger Delta crisis. The reconstruction of political and economic governance in Nigeria and in the Niger Delta states is discussed deeply, also by laying the analytical and operational foundations for new instruments and institutions to solve the problems.

The topic of this workshop was "Reconstructing Economic Governance after Conflict at Local, Provincial and National State Levels in Resource-Rich African Countries, Comparative Analyses". The topic has an extraordinarily great relevance for many African countries and is of importance for the whole African continent. Some African countries were able to successfully end their long periods of violence and civil war, but other African countries are still amidst conflicts, although the conflict intensity is varying largely between countries and within countries. While in the first group of countries the consolidation of peace is of paramount importance, in the second country group the basic reconstruction of the social contract that was broken down earlier is absolutely necessary. Encouraged by peace agreements in Sudan, Sierra Leone, and in other African countries it is essential to take stock of the conditions how peace and reconstruction can be made durable and also sustainable for longer periods, as we know that the risk of new violence and of new civil wars is very high in Africa. It is therefore necessary to analyse in detail how the peace agreements can be supported by broad-based economic reconstruction programmes, by governance reforms, and by economic and social policy reforms.

The *first major issue* of the workshop concerned the reconstruction of governance after civil war and after violent conflicts in African countries. The meaning/s of governance, the implementation of governance reforms, and the reconstruction of governance after violent conflict and civil war were major issues during the debates. It was therefore necessary to outline an operational definition of governance, and especially of economic governance.

The *second major issue* of the workshop covered the ways and means how resource-dependent and resource-abundant African countries can avoid the "resource curse" by implementing new forms of governance and new forms of managing the resource rents and revenues. Today more than 20 African countries are already oil-exporting countries or are on the way to become very soon an oil exporter. It is therefore very important to see how in these oil-rich countries and in other resource-rich African countries governance and policy reforms

can lead to a more sustainable management of resource revenues, so that conflicts and wars about access to resources and revenues can be prevented.

The *third major issue* considered both, the interaction of conflict and resource abundance in African countries. Countries with violent conflicts and civil wars are often richly endowed with mineral resources, with oil and gas, and with other natural resources. Many explanations are given for this correlation and interaction of factors. Reconstruction of governance and especially of economic governance has to deal with both, with peace consolidation and economic reconstruction, and with the management of the resource rents and revenues in a productive and equitable manner.

The *fourth major issue* of the workshop was related to local resource control. At the local and the provincial level we find an intensification of the problems - the weak local governance conditions, the localised resource curse, the local impacts of civil war and of violence, the local impacts of a loss of resource control during conflict, and the problem of intensified resource competition on scarce factors such as land, water, forests, pasture, and environmental goods matter cumulatively at the same time.

The last and *fifth major issue* related to the necessity of finding lessons from country cases. Many country cases were covered directly in the presentations or indirectly by referring to the cases in comparative analyses. Although in the programme of the workshop there was a thematic concentration on Sudan and on Nigeria, other countries were also analysed along the lines of conflict, reconstruction, governance and governance reforms.

The Sudan was a very important reference case in the workshop. The Comprehensive Peace Agreement of January 9, 2005 in Sudan still gives hope that a reconstruction of the country can begin nation-wide, although in some areas of the country (in the West, in the East, and even in the South) there was and is widespread violence, and there are also public actions at central government and regional government levels that are not in conformity with the peace agreement. The East Sudan Peace Agreement is encouraging, but the situation in the Darfur region and also in South Sudan is currently not moving into the right direction. Sudan is a country where, after 21 years of civil war and of displacements of million of people, governance reforms and a broad reconstruction of the economy and the society are on the agenda (although progress is limited). Because the Sudan has also become a relevant oil-exporting country, the issues of managing oil revenues at the national and sub-regional level and of re-gaining resource control at the local levels are of paramount importance. As the South Sudan is allocated a 50 per cent share of the net oil revenues of the Sudan one can conclude from this case the challenge of avoiding a resource curse by new management styles. Also in this respect the more recent developments in Sudan and South Sudan are not encouraging.

Nigeria is the second reference case that was emphasised intensively at the workshop. The severe economic and social problems of the country and the Niger Delta Crisis show very clear all the problems that a country can have when it is richly endowed with oil resources but when it is badly governed. At the same time, regions in the country are affected by large-scale violence, particularly in the oil-producing regions. In the Niger Delta states of Nigeria all problems that are associated with conflict and with the resource curse culminate. Whereas Sudan is a relatively new oil producer, Nigeria is an established one with a long history of experiences with a large oil sector, and the country is still richly endowed with oil resources. Reconstruction of democratic governance, of political, economic and corporate governance at national, regional and local levels is therefore required all over Nigeria, not only in the Niger Delta states. At the workshop stock was taken of all these insights and experiences that can be gained from the Nigerian case. It could be outlined quite impressively during the sessions

what the people, the politicians and the governments can do to overcome the crisis, to manage the oil revenues properly, and to avoid violence and civil war in the future.

Other country cases also played a role in this workshop, such as the Democratic Republic of Congo, Cote d'Ivoire, Angola, Chad, Cameroon, Ethiopia, and Ghana. These cases were included for presentations and discussions during the workshop in order to demonstrate different ways, forms, policies and modalities for reconstructing economic governance after conflict and/or to highlight rather successful cases of governance and conflict prevention and resolution. Some of these countries are suffering from civil war and widespread violence or are still affected by the consequences of prior civil war and violence. The case of Cameroon, however, may give some hope that conflicts in Africa can be solved peacefully, as the Bakassi Peninsula conflict between Nigeria and Cameroon clearly shows that constructive solutions can be found for complex border conflicts, even in the case of oil-rich regions. Ghana is also a case where difficult issues of resource control are managed on the basis of new regulatory concepts and with growing success, and with increasing transparency on and democratic control of the resource rents. Ethiopia was included as a case because expected discoveries of oil in the Gambella region have already impacted the politics as well as the economy of the sub-region of Gambella, the country of Ethiopia and the whole region of the Horn of Africa. The case of Chad was of relevance for the workshop because of the interconnections with the Darfur conflict and because of the high expectations that arose concerning the forms of an internationalised control of its oil revenues (for some time the governance system of oil exploitation in Chad was even considered as a model for other African oil-exporters). Cote d'Ivoire was considered as a case because the country turned into conflict and civil war due to decades of public mismanagement and due to the failures to adjust to the globalisation trends. These factors led to a misuse and even to an exhaustion of the huge natural and human resources of the country. The DR of Congo and Angola are cases that were considered in the workshop because of the need to reconstruct economic and political governance after a long time of regional and national civil wars. Not all of these cases are presented in the form of articles in this book, but the other book on the workshop (that is including the shorter policy briefs) gives even relevant information on these other country cases.

The topic of the workshop was of great importance because of the new global rush for mineral, oil and gas resources. This global rush with all its strategic and geopolitical implications is already severely affecting the African continent, and it will shape the economic policies, the geo-strategic moves of the huge powers, as well as the terms of international finance and of development cooperation towards Africa. Eventually also the policies related to the Millennium Development Goals (MDGs) will be affected by the new oil discoveries, because of the oil and resource windfalls, and because of the resulting Dutch Disease and Resource Curse dangers (potentially also affecting the aid relationships with African countries quite heavily).

At the workshop many researchers came who had also participated at the last workshop on "Africa - Escaping the Primary Commodities Dilemma" in Bremen. The draft papers of that earlier workshop were discussed and improved, and on this basis the volumes 11 and 12 of the African Development Perspectives Yearbook were published. Volume 11 considered issues of the Primary Commodities Dilemma in Africa and Volume 12 issues of the Resource Curse, Resource Dependency and Export Diversification Strategies in Africa were analysed. These are topics that are very important also in the workshop report presented here (and as reported in the other book with the policy briefs). However, in the workshop reference was given specifically to economic and political governance reforms, and to those strategies that will allow

it to improve the governance conditions and mechanisms in Africa in a more sustainable manner.

We owe very much in this research effort to our research partners in the Research Group on African Development Perspectives Bremen and in the Cooperative Research Project on Sudan. The network of the Research Group is definitely widening and deepening. The workshop benefited also from the inputs of our research partners in the Cooperative Research Project who are located in Sudan, Kenya and Ethiopia. They work with us on the important research topics of our Cooperative Research Project on Governance in Sudan. The case studies on Sudan in this book owe a lot to our partners in the Cooperative Research Project on Governance in Sudan, and to supporters of our research on Sudan like Dr. Dirk Hansohm from UNDP Khartoum, who has done important research on Sudan with us in Bremen in the 1980s. The basic idea of a Cooperative Research Project – to decide jointly on the objectives, the detailed work programmes, the modalities of financing interrelated projects, and the evaluation of these programmes – is unique as the African and European partners have equal positions in the decision-making process about research and also in the communication of the research output. A unique and very important feature is also the fact that the PhD researchers of the Cooperative Research Project could present their findings in the international workshop.

The workshop was organised in the form of nine sessions on the central issues of governance and governance reform, on the interdependencies of violence, civil war, resource abundance, resource curse, and resource control, and on the impacts of the major strategic resource “oil and gas” on Africa as a whole and for particular African countries and regions, reflecting deeply on national, sub-regional and also local impacts. The annex to this book shows also the Full Programme of the workshop and the Contents of the book with the Policy Briefs. This second book on the workshop results is different from the presentation of the researches during the workshop, as the individual country cases and country experiences were used to organise the sequence of papers for the book.

Our focus for the workshop was and in this book is on the modalities and complexities of reconstructing economic governance, although we see that we cannot separate this concept from an all-embracing consideration of governance and governance reforms. We hope that by this book we have made further progress in defining and clarifying the complex issues of governance, in learning from case studies, and in analysing and categorising the objectives and the instruments for reconstructing governance in resource-rich African countries after conflict. We hope for a critical and constructive reaction to the views taken in this book from the side of the international research community who is working so hard on these issues, but we also hope for substantive responses from the national policymakers and the international donor community who have to make operational the reconstruction of governance, the conflict prevention and the peace consolidation tasks.

We have to thank the University of Bremen and the Volkswagen Foundation for all the support we got for the workshop and for the publications. The University of Bremen supported over many years, even for decades, the work of the Research Group on African Development Perspectives Bremen at IWIM. The Volkswagen Foundation is not only supporting this Cooperative Research Project generously, but is also bringing together all the project researchers – many of them Africans - of related projects that are supported by the Volkswagen Foundation in their Programme for Sub Saharan Africa in Bamako, Mali in November 2007. The network of research on Africa and with Africans will definitely be stimulated by these forms of international research cooperation. We also have to thank the many contributors to this

book, especially the author of the Keynote Address, Dr. A. Jerome from the NEPAD Secretariat in Pretoria, South Africa. The authors' works reflect also their deep commitment towards sustainable peace, good governance and development in Africa.

Furthermore, we have to thank the competent and motivated staff of IWIM for their work during preparations of the workshop and of this book. Katrin Dorow, the foreign language assistant of IWIM, has – as a co-editor of the book – done an excellent job in language editing and in making the layout of the manuscript. Tino Urban, a doctoral research assistant at IWIM and co-editor also of the other book on the workshop containing the policy briefs, has done marvellous work in critically commenting on the papers and in communicating with the many authors up to the last moment. Without all these inputs and commitments we would not have been successful in arranging such a workshop and in publishing two books as the scientific outcome of the event.

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## List of Abbreviations and Acronyms

ACB	African Continental Bank
ACC	Anti-corruption Commission
ADB	Asian Development Bank
AERC	African Economic Research Consortium
AfDB	African Development Bank
A.G.	Attorney General
ANEEJ	African Network for Environment and Economic Justice
APRM	African Peer Review Mechanism
ARCC	Autorité de Régulation de Café et Cacao
AU	African Union
AUCPCC	African Union Convention on Preventing and Combating Corruption
BAT	Best Available Technology
BBC	British Broadcasting Corporation
BBL	Barrels
BCC	Bourse du Café et du Cacao
BDC	Business Development Centre
BL	Basic Law
BMO	Best Management Option
BMPIU	Budget Monitoring and Price Intelligence Unit (Due Process)
BNS	Basic Need Services
BOS	Bank of Sudan
BOSS	Bank of Southern Sudan
BPO	Best Practical Option
BPT	Best Practical Technology
BPT	Business Profit Tax
CAISTAB	Caisse de Stabilisation et de Soutien des Prix des Produits Agricoles
CBO	Community Based Organizations
CBOS	Central Bank of Sudan
CBN	Central Bank of Nigeria
CED	Centre d'Economie du Développement
CFA	Communauté financière africaine
CI	Côte d'Ivoire
CGRAE	Caisse Générale de Retraites des Agents de l'Etat
CNL	Chevron Nigeria Limited
CNPC	Chinese National Petroleum Corporation
CO	Certificate of Occupancy
CPA	Comprehensive Peace Agreement
CPR	Conflict Prevention and Reconstruction
CSAE	Centre for the Study of African Economies
CSO	Civil Society Organizations
CW	Commonwealth
DAC	Development Assistance Committee
DALYs	Disability Affected Life Years
DDR	Demilitarization, Demobilization, and Reintegration
DIE	Deutsches Institut für Entwicklungspolitik
DfID	Department for International Development
DPU	Development Policy Research Unit

DRC	Democratic Republic of Congo
DT	Document de Travail
ECA	Economic Commission for Africa
ECOS	European Coalition on Oil in Sudan
ECOWAS	Economic Community of West African States
EFCC	Economic and Financial Crimes Commission
EGASPIN	Environmental Guidelines and Standards for the Petroleum Industry in Nigeria
EI	Extractive Industries
EITI	Extractive Industries Transparency Initiative
ENV98	Enquête sur les Niveaux de Vie 1998
EPSA	Exploration and Production Sharing Agreement
FAMC	Fiscal and Financial Allocation and Monitoring Commission
FCT	Federal Capital Territory
FDPCC	Fonds de Développement et de Promotion des Activités des Producteurs de Café et de Cacao
FEPA	Federal Environmental Protection Agency
FESCI	Fédération Estudiantine de Côte d'Ivoire
FG	Federal Government
FGCCC	Fonds de Garantie des Coopératives Café-Cacao
FGD	Focus Group Discussion
FMF	Federal Ministry of Finance
FOB	Free on Board
FOS	Federal Office of Statistics
FPI	Front Populaire Ivoirien
FRC	Fonds de Régulation de Café et Cacao
FRN	Federal Republic of Nigeria
GCA	Global Coalition for Africa
GDP	Gross Domestic Product
GNI	Gross National Income
GNU	Government of National Unity
GOSS	Government of Southern Sudan
GONU	Government of National Unity
GRO	Grass Root Organizations
GTI	Groupe de Travail International
GTZ	Gesellschaft für Technische Zusammenarbeit
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HLTM	High Level Technical Mission on Issues in Fiscal Management
HSGIC	Heads of State and Government Implementation Committee
IBRD	International Bank for Reconstruction and Development
ICJ	International Court of Justice
ICP	International Cooperation Partners
ICPA	Independent Corrupt Practices Act
ICPC	Independent Corrupt Practices Commission
IDP	Internally Displaced Person
IFI	International Financial Institution

IMF	International Monetary Fund
INC	Interim National Constitution
Int. Nr	Interview Number
INS	Institut National de la Statistique
IWIM	Institute for World Economics and International Management
JAM	Joint Assessment Mission
JNTT	Joint National Transition Team
JPDR	Journal of Peace and Development Research
JSC	Justice of the Supreme Court
KKZ	Kaufmann, Kraay, and Zoido-Lobaton (Index of Governance)
LDC	Least Developed Country
LG	Local Government
LUA	Land Use Act
m	million
MDG	Millenium Development Goal
MDTF	Multi-Donor Trust Fund
MEECI	Mouvement des Élèves et Étudiants de Côte d’Ivoire
MEM	Ministry of Energy and Mining
MENA	Middle East and Northern Africa
MFEP	Ministry of Finance and International Development
MFNE	Ministry of Finance and National Economy
MIC	Ministry of International Cooperation
MNC	Multi National Company
MOF-PU	Ministry of Finance, Petroleum Unit
MOSOP	Movement for the Survival of Ogoni People
MOU	Memorandum of Understanding
MPLA	People’s Movement for the Liberation of Angola
N	Naira
NBER	National Bureau of Economic Research
NC	Nigerian Constitution
NCB	Nile Commercial Bank
NCP	National Congress Party
ND	Niger Delta
NDDB	Niger Delta Development Board
NDDC	Niger Delta Development Commission
NDII	Niger Delta International Initiative
NDR	Niger Delta Region
NDRDMP	Niger Delta Regional Development Master Plan
NEEDS	National Economic Empowerment and Development Strategy
NEITI	Nigerian Extractive Industries Transparency Initiative
NEPAD	New Partnership for Africa’s Development
NEPR	National Environmental Protection Regulation
NGO	Non-Governmental Organization
NPC	National Petroleum Commission
NPOA	National Programme of Action
NSA	Non-State Actors

NSWG	National Stakeholders Working Group
NUPI	Norsk Utenrikspolitisk Institutt
OAU	Organization of African Unity
ODA	Overseas Development Assistance
ODFMC	Oil Derivation Fund Management Committees
ODI	Overseas Development Institute
OECD	Organisation of European Cooperation and Development
OMPADEC	Oil Mineral Producing Area Development Commission
ONGC	Oil and Natural Gas Corporation
ONWA	Oil on Navigable Waters Act
OPA	Oil Pipeline Act
ORSA	Oil Revenue Stabilization Account
OSOPADEC	Ondo State Oil Producing Area Development Commission
PA	Petroleum Act
PDCI	Parti Démocratique de Côte d'Ivoire
PEG	Government Economic Program
PER	Public Expenditure Review
PFM	Public Finance Management
PIT	Personal Income Tax
POA	Programme of Action
PRGF	Poverty Reduction and Growth Facility
PRM	Public Revenue Management
PSA	Production Sharing Agreement
PSTF	Petroleum Special Trust Fund
PTF	Presidential Task Force
PWYP	Publish What You Pay
RBDA	River Basin Development Authority
RBDS	Regional Business Development Service
RDD	Regional Development Dialogue
RDR	Rassemblement des Républicains
REDFUND	Regional Enterprise Development Fund
SAP	Structural Adjustment Program
SC	Supreme Court
SCAPO	Southern Cameroons People Organisation
SCNC	Southern Cameroon National Congress
SD	Sudanese Dinar
SID	Society for International Development
SMP	Staff Monitored Programme
SPC	Sudan Petroleum Corporation
SPDC	Shell Petroleum Development Company
SPLA/M	Sudan People's Liberation Army/Movement
SPLM	Sudan People Liberation Movement
SSRDF	Southern Sudan Reconstruction and Development Fund
SSA	Sub-Saharan Africa
SSLA	Southern Sudan Legislative Assembly

TI	Transparency International
TIPS	Trade and Industrial Policy Strategies
TV	Television
UCT	University of Capetown
UES	Uniform Effluent Standards
UN	United Nations
UNCC	United Nations Convention against Corruption
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNIDO	United Nation Industrial Development Organization
UNITA	National Union for the Total Independence of Angola
UNU	United Nations University
UNWWAP	United Nations World Water Assessment Programme
UNWWR	United Nations World Water Report
US\$	US Dollar
USAID	United States Agency for International Development
UTC	United Trading Company
VAT	Value Added Tax
WAEC	West African Examinations Council
WAEMU	West African Economic and Monetary Union
WB	World Bank
WDI	World Development Indicators
WIDER	World Institute for Development Economics Research
WTO	World Trade Organization





***CHAPTER 1***

***Reconstructing Economic Governance: A Framework for Analysis and  
for Policy Interventions***

**Reconstruction of Economic Governance after Conflict in Resource-rich African  
Countries: Concepts, Dimensions and Policy Interventions**

Karl Wohlmuth

**Reconstruction of Economic Governance in Conflict-prone, Resource-rich African  
Countries and the Role of the African Peer Review Mechanism**

Afeikhena T. Jerome



# **Reconstruction of Economic Governance after Conflict in Resource-rich African Countries: Concepts, Dimensions and Policy Interventions<sup>1</sup>**

Karl Wohlmuth

## **Abstract**

*This study investigates the complex issues of reconstructing economic governance after conflict in resource-rich African countries. The concept of economic governance - although based on the overall concept of governance in developing countries – is important for development, reconstruction and crisis prevention, and in this study the economic core functions and dimensions of governance are elaborated in more detail. This is done by referring to the various conceptual meanings and to the different theoretical backgrounds, so as to come up with an operational term. The economic issues of reconstructing governance after civil war and civil conflict and for preventing and successfully overcoming the resource curse in resource-rich African countries are classified, and the most important policy areas and dimensions are elaborated. Also the sub-regional, provincial and local economic governance issues are presented to highlight the specific problems of economic reconstruction in regions, provinces and localities. This is a necessary step as it is important to see where the resources are located and how the exploitation of resources takes place, thus often leading to severe negative impacts on the local people, the traditional economy and the indigenous society. Public guidance and public action obviously can successfully re-establish economic governance in such countries at the central and local levels if certain conditions are met. These conditions are presented in the study. Obviously a lot can be learned from case studies (such as Nigeria, Sudan, Angola, Democratic Republic of Congo, Cote d'Ivoire, Cameroon, Ethiopia and Ghana).*

## **1. Introduction**

The term “governance” is leading now in all debates on policy reform and on ways of reconstructing countries after conflict. The definitions differ between non-economists and economists, and depending on the theoretical choices and value premises. However, the basic idea that is associated with the term is that the relations between the rulers/the government and the ruled/the civil society are important for peace, for the use of economic resources, for sustainable growth, and for poverty alleviation.

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<sup>1</sup> This is a revised, updated and extended version of my contribution in Wohlmuth/Urban, Eds., 2007

Economic Governance is an important part of the overall frame of governance, as we have to consider the distinct but interrelated elements of political governance, of economic governance, and of corporate governance. There are however important interdependencies among these three categories: political governance is important for realising economic and corporate governance, and economic governance and corporate governance are vital for maintaining and consolidating political governance.

Reconstruction of governance and especially of economic governance means that the context for the functioning of governance and economic governance is restored. After conflict, the basic functions of economic governance have been destructed and are therefore out of work. Macroeconomic stabilisation has to be restored, so that high inflation rates, unsustainable budget deficits, and overvalued exchange rates can be overcome. A new framework for a functioning macroeconomic policy has to be constructed. This requires that fiscal policy institutions are rebuilt and that a central bank is strengthened so that it can exercise monetary control effectively. Sector policies have to be redesigned after conflict, and newly built sector support institutions are needed. This is important especially for the agricultural sector and the industry sector, as these sectors particularly have suffered from steeply increasing transaction costs during times of conflict.

Reconstruction of economic governance matters in all areas of public affairs. Public financial management and public finance institutions have to be restored immediately after the end of conflict as functioning taxation and public expenditure systems were eroded, and as they are needed for restoring political and corporate governance as well. Medium-term frameworks for public finance and long-term visions for the economy have to be developed so that economic governance can be restored. Monetary and financial systems need a rebuilding of means for supervision, transparency, and accountability, and a build-up of institutions that can lay the foundations for private sector development, growth and poverty alleviation. Furthermore, the institutions and the formation of policies for the global economic integration of the country have to be restored (the foreign trade regime, the foreign investment regime, the modalities for technology transfers, and the institutions for regional cooperation), so that the basic foundations for international competitiveness are recreated. Concerning infrastructure development and infrastructure sectors reform, all types of infrastructure (physical, social, immaterial) and the respective institutions need reconstruction and rehabilitation. Social safety nets and poverty alleviation institutions also need rebuilding and have to be brought to minimum standards.

Related to the reconstruction of economic governance is the vital importance of reconstructing corporate governance. Reconstructing corporate governance means re-establishing and protecting property rights, providing access to credit, respecting intellectual property rights, and improving the conditions for entering and staying in business. Reconstruction of economic governance therefore means that the transaction costs of doing business have to be reduced. This also means that the private sector institutions have to be restored to a level that is compatible with an ordinary functioning of market transactions.

Reconstruction of economic governance after conflict means that the consequences of civil war and of violence for the economic institutions and the level of transaction costs have to be assessed properly to prepare a new start with a genuine reform. Conflicts, violence and civil war mean that the social contract in the society has broken down. Reconstructing the social contract is a complex task involving legal, social and economic programmes. The question is how great the risks of the occurrence of a new conflict are. Risk factors are still there, even long after the end of a civil war, and may impede the reconstruction of all forms of governance. This also means that the conditions for growth and poverty alleviation are affected by these risk factors. Especially, the sectors agriculture and industry are demanding in terms of transaction costs, and therefore sectors like agriculture and industry need broad-based development programmes to get off. Redistribution of assets to the benefit of neglected social and ethnic groups may be necessary, as they suffered prior and during the conflict.

Reconstruction of economic governance after conflict may be further complicated if natural resources are at stake. Risk factors of a resource curse do exist, and they may even escalate during and after conflict. Therefore, identifying and assessing the various groups of risk factors that are associated with civil conflict and with natural resources abundance, should have priority when starting with the reconstruction of economic governance. All these reconstruction strategies and policies should consider and assess the probability of a new conflict and of a resource curse. Optimistically, we can see that most of the strategies and policies of reconstructing economic governance may converge towards the objectives of reducing the risks of conflict and of a resource curse. This facilitates a reconstruction programme in resource-rich countries after conflict. On the other hand, natural resources may also complicate the reconstruction process.

The two cases of Sudan and Nigeria show how complex the tasks of reconstructing economic governance after conflict indeed are:

In the case of Sudan we see that governance systems have been destructed over decades by prolonged civil wars, and that in the short periods of negotiated peace no coherent and

sustainable reconstruction process of governance institutions was possible. The production of oil in Sudan since 1992 has brought about new problems for the governance institutions, as the resource turned to become a new factor of conflict among the elites and between the elites and socially marginalized groups in the country. Conflicts of interest within the centre of economic activity and between the centre and the periphery have emerged. Still there is a high risk of a renewed civil war, of violent conflicts, and even of a violent separation of the country. These risks prevail and impede investment activity. The risks of a resource curse are also high (in the North and in the South of Sudan), and at the local level there does not exist any form of local resource control. For political governance reconstruction the conditions are indeed bad, and for reconstruction of economic governance the conditions are even worse.

In Nigeria the situation is as well unfavourable despite of the fact that the civil war took place a long time ago. The history and memory of civil war, the decades of civil conflict in the Niger Delta, and an escalation of the violence in the Niger Delta states have prevented effective governance reforms. Governance reforms were not implemented, and economic governance is considered as particularly weak. Nigeria has a long history of oil production since the 1960s, and it was highly concentrated in the Niger Delta states, what has reinforced problems there and raised the risks of increasing conflict intensity (depending on the situation of the oil sector and the state of the environment of oil production). Resource curse problems prevail at the national level, and a lack of local resource control in the Niger Delta states arouses new conflicts. Reconstruction of political and economic governance has to cope with high risks of conflict and of a resource curse, but some optimistic signs for positive changes can be observed.

Assessing the level of governance problems in Africa by measuring the state of governance and the extent of governance reforms in such countries is important, and it is done now for Nigeria and other African countries in the African Governance Report 2005 (see ECA 2005), and it is done also for Nigeria, the Sudan and other African countries by the World Bank (see World Bank 2006). Although the indicators and the methodologies used are different, both institutions rely on the concept of a “capable state” that is able to move in the direction of good governance (with associated improvements in the livelihood of the people). These reports allow it to measure some important aspects of governance reform needs and also the deficits that exist with regard to the foundations of a capable state. Much more and much deeper researches and research results are needed to quantify the governance needs, but this requires field research, cooperative researches and comparative analyses.

This Workshop was an attempt to work along these lines and has tried to stimulate further action in this regard. There is now a globally increasing critical awareness that more transparency is needed with regard of governance indicators so as to avoid a misuse of them for comparing superficially the quality of governance across countries and over time (see on such warnings Arndt/Oman 2007). Such a danger of misuse may be great when we consider that the KKZ index on governance (see Kaufmann/Kraay/Mastuzzi 2005) is used in some form by not less than 18 different international organizations (see Quibria 2006, pp. 103 - 104), and often used in a highly aggregated form for the six groups of indicators contained (voice and accountability; government effectiveness; political stability and absence of violence; regulatory quality; rule of law; and control of corruption). Therefore country case studies are requested which give deep insights into the structure of political, economic and corporate governance so as to give the basis for relevant governance reforms. On this basis relevant and transparent governance indicators can be developed and measured. This will give the basis for governance reforms that lead to “good governance” and to “good governing institutions”.

## **2. Governance Reforms in Resource-rich African Countries: Research Design, Research Purpose and Research Results**

The research on reconstructing economic governance in Africa has various objectives: First of all, it is so far not clear what the relevant governance concept is, and what it should be, and how it may be related to economic governance and reconstructing economic governance. We see in the literature a great number of theoretical approaches - by economists and by non-economists - that are all defining governance in some way, and later on these theoretical concepts are used in so-called governance reform and reconstruction programmes. The concept of governance became popular in the development discourse in the early 1990s, and since then it became quickly a prominent playing field in the areas of development cooperation and development studies for the application in ambitious governance-related country policy reform programmes. It is therefore an important aspect of the research to highlight the various forms and expressions of the governance concept (such as economic and political governance; national and global governance; developmental and participatory governance; macro and micro level governance; governance from above and from below). Secondly, it became quite popular to apply the concept of governance reform to countries after conflict, in order to identify the needs for governance reform when the civil war and high-intensity conflicts in the country have ended. Although the risk factors that are

associated with civil war and violence were identified and elaborated in numerous researches, the implications for governance reforms and economic governance strategies were not adequately and pragmatically drawn. This is therefore the second major purpose of our research.

Thirdly, many African countries afflicted with civil conflicts are resource-abundant, and it is a main task of our research to identify the risk factors that lead to a “resource curse”. The list of factors with some (significant) importance in this regard is long, but the major problem is how to design governance reforms with the aim of avoiding that a resource curse emerges and proliferates, and a further problem is how an economic governance reform package can be implemented so as to prevent a resource curse in African countries.

Fourthly, the research identified specific local resource control problems as a source of conflict and of a resource curse. So it is necessary to look at the localities, areas and regions where conflicts and natural resources pose particular challenges for governance reforms.

All this taken together, we do the research for the purpose to investigate the conditions for effective governance reform, and especially with regard of the economic governance reform, in countries and areas where conflicts and resource abundance lead to cumulating problems.

This research is done by literature research, by comparative analyses, by advising field research in the areas, by cooperating with university people and experts from the conflict areas, and by coordinating research and the holding of workshops like this one here in Bremen. For Sudan, the research is undertaken in the context of the Sudan Economy Research Group Bremen and the Cooperative Research Programme on Governance and Social Action in Sudan after the CPA of January 9, 2005, and for Nigeria the research is undertaken in the context of the Research Group on African Development Perspectives that is editing the African Development Perspectives Yearbook.

For countries like Sudan and Nigeria the lessons from these studies are obvious and need to be carefully drawn. Both countries are affected by civil war and by violence, and both countries have oil that is concentrated in a particular and strategic setting of the country. The oil-rich Niger Delta states have strategic importance in Nigeria and the oil-rich states in South Sudan are along the borders with the Northern Sudanese states. All this makes the situation highly vulnerable and complicates governance reforms. There are other similarities to be observed – as the long period of civil war; the escalation of conflict towards greater conflict intensity and a widening of affected conflict regions; and the problem that various state levels are involved in the public management of funds for the conflict regions (as in both countries there is a federation of states with an own constitution). There exists another similarity also,



such as a high degree of social polarisation in the two countries - between the North and the South in the Sudan and between the Niger Delta states and other regions in Nigeria. Although there already exists excellent work on the causes of conflict and the post-conflict economic governance issues of the two countries (such as by Garba/Garba 2005 on Nigeria and by Ali/Elbadawi 2005 on the Sudan), this workshop intended to produce new research results based on new findings in the field. The ultimate purpose of these researches is to exchange country experiences so that one country can learn from the experiences of the other country in terms of conflict prevention, dispute settlement and post-conflict reconstruction. Other African country case studies were also included (Ghana, Cote d'Ivoire, Cameroon, Angola, Democratic Republic of Congo, and Ethiopia), and also these cases have brought important insights, although the majority of contributions referred to the two countries Sudan and Nigeria.

The purpose of the research programme on Reconstructing Economic Governance in Resource-rich Countries after Conflict is therefore to come to policy recommendations and to derive lessons for decision-makers. A policy package for the reconstruction of economic governance in resource-rich countries after conflict needs more analytical substance than presenting just a catalogue of proposed actions.

### **3. Defining Governance and Designing Governance Reforms for Reconstructing Economic Governance**

There are so many definitions of governance and of economic governance around, and a mapping of all these definitions still has to be done. The theoretical background of all these definitions differs widely. The policy implications of the governance concepts, which are used for political and economic reforms and for reconstructing political and economic governance after conflict, are also different.

We see in the literature various important governance concepts, like good governance, development governance, participatory governance, good economic policy reforms and policy rules, and a whole set of economic governance concepts (with different backgrounds in neoclassical, institutional and evolutionary economics).

The World Bank popularised the concept at the end of the 1980s for Africa (see Landell-Mills/Serageldin 1992), although African regional organisations claim the original use of the concept in its Alternative Development for Africa declarations. Starting from a very short definition of governance as the “exercise of political power to manage a nation’s affairs” (Landell-Mills/Serageldin 1992, p. 304), this definition is obviously encompassing all public

policy aspects of governance. Good governance then refers to the ways and means of improving the exercise of political power when managing the affairs of a nation. All elements and factors that are relevant can be considered as incorporated in such a definition (such as decision-making, institutions, consensus-building, rule of law, macroeconomic stabilisation, integrating the public competences at all state levels, and enforcing an autonomy of the bureaucracy and a social inclusiveness of the policies). The focus is, however, on public authority and the nation's affairs, and the public authority can be creative or destructive, so that there may be good or bad governance as an outcome of the process of governing.

The debate on governance has revealed important aspects of governance reform in developing countries, and many issues and dimensions of governance were raised (such as the dimensions of authority, problem solving, conflict resolution, and implementation). Reconstruction of governance in this context means recreating the authority to decide and to act, problem-solving capacities, conflict resolution capacities, and implementation capacities (see Boeninger 1992). It became also quite clear that external factors can play a role in this reconstruction process of creating conditions for good governance by development aid and aid conditionality (see Landell-Mills/Serageldin 1992), and that cultural dimensions play a role in defining appropriate and relevant governance conditions (see Martin 1992). Reconstruction of governance must always be owned by internal forces (so that external actors can only support the process), and has to be based on local assessments of what good governance is in a particular society. Local assessments of the cultural base of governance refer to the elements what the people consider as good governance, how the people evaluate the law(s) and what law(s) they consider as good and appropriate, which types of organisation they are considering as effective for social organisation, which types of informal groupings and associations are really accepted, how to deal with distrust of power and the state, and what the people consider as adequate and local forms of accountability (see Martin 1992). This view of governance based on cultural dimensions goes far beyond the public policy view of governance.

In the widely discussed and acclaimed African Governance Report 2005 (see ECA 2005 and a comment on this report in DIE 2006) the state of political, economic and corporate governance is investigated by analysing country-wise perceptions about particular aspects of governance (according to specific governance indicators). The first report is based on national country reports for 27 African countries (however not yet included are such countries as Sudan, Angola, DR of Congo, as there are countries with a long-lasting conflict and a tremendous demand for reconstruction of governance conditions and institutions). The

approach is mainly based on measuring the quality of governance by expert panel opinions, but also by including representative sample household interviews and deskwork based on hard facts about governance conditions. After assessing the state of governance the implications for governance reforms can be drawn.

Good governance is referred to in the Economic Commission for Africa (ECA) Governance project as progress with regard of political, economic, and corporate governance. Criteria for progress are identified. Economic governance progress is assessed with regard to improving the state of public financial management and accountability, and of reestablishing a greater integrity of the monetary and financial system. For evaluating the progress with regard of corporate governance, the progress in the development of institutions for the development of the private sector, the progress in protecting property rights, and the progress in corporate governance per se are assessed and measured.

The ECA definition of governance is relevant for countries after conflict as reconstructing the social pact in the country comes in. Governance is “a process of social engagement between the rulers and the ruled in a political community. Its components include i) rule making and standard setting, ii) management of regime structures, and iii) outcome of the social pact” (ECA 2004, p. 3). Good governance is referred to as the (positive) effects of governance on the livelihood of the people, and there are three major agencies of good governance (a capable state, an active civil society, and a thriving private sector). We see that the ECA concept of good governance is broader than the World Bank concept, and that it goes far beyond the public affairs domain of good governance. Although the theoretical background of the efficient and capable state is not very much discussed and articulated, it would nearly fit the new World Bank concept of a capable state (as measured by different performance indicators; see especially in World Bank 2006). The ECA Governance Project is important for identifying important governance indicators and for implementing measurable instruments for the reconstruction of economic governance, and we also observe some correlation with other International Governance Projects (see ECA 2004, 2005).

The African Governance Report governance indicators and the World Bank and International Development Association (IDA) governance indicators are comprehensive and broad with regard to the important dimensions of political, economic and corporate governance, but the theoretical background of governance is eclectic and the concept of a capable state is rather weak. Nevertheless, it becomes clear from the concept of a capable state and from the presentation of the various governance indicators that reconstruction of governance in countries after conflict implies that all agencies, instruments and components of governance

have to be focussed simultaneously, and that resource abundance can complicate the process of reconstruction. Resource abundance in countries after conflict may further erode the potential of the three governance agencies to support the reconstruction process, because of the (negative) impacts of natural resources abundance on the quality of institutions and policies, on rent-seeking and capturing the state, and on corruption.

The concept of development governance (see on the concept Zafarullah/Huque 2006; and see on the governance conditions in African developmental states Mkandawire 2001) relates to the three basic socio-economic functions of a developmental state (regulation, provision of infrastructure, and redistribution), and reconstruction of developmental governance means that these functions are restored (in the context of a state that has an ideological base and a technical capacity for rapid development). Associated to this concept is a sufficient degree of autonomy of the state and its bureaucracy from social groups/forces so that not private and particular interest groups prevail and form the politics of the state. Further on, a state is considered as developmental if it is to a certain degree inclusive in terms of protecting the social interests of all social groups and if it has some social anchoring and acceptance for the key political actors. Reconstruction of economic governance in this concept means that priority has to be given - in countries after conflict and endowed with natural resources – to restoring the three basic socio-economic functions, the autonomy of the state, the social inclusiveness, and the democratic base of the state. A democratic developmental state is better defined than a capable and efficient state, but in terms of governance indicators, components and agencies of governance the gap may not be that great. It is therefore important to look at the huge reconstruction of economic governance task from the point of view of the whole frame of a functioning developmental state.

The concept of “participatory governance” is also important for any effort to reconstruct governance in countries after conflict (see Friedman 2006 on the concept; and on the relation between socially sustainable development and participatory governance see Papadakis 2006), as the specific aspect of an active civil society is brought into the governance framework. Participatory governance is based on a regulatory framework in which the public authorities and the civil society institutions negotiate a cooperation between state institutions and civil society groups so that a broad-based participation in the country may enhance development performance and strengthen democratic development (see Friedman 2006, p. 4). Reconstruction of governance according to this concept means – especially after conflict and in case of resource abundance - that a regulated framework between state and civil society institutions speeds up reconstruction work, institution building, and the strengthening of state

capacities and civil society associations by participatory processes. The potential of participatory governance can be utilised fully for the crucial decisions that have to be taken after conflict.

The good governance concept of pursuing good economic policies, based on sound principles and rules, refers to the Washington Consensus agenda. The list of good economic policy rules was expanded considerably over time from the “original” to the “augmented” consensus, and the discussion goes on with new rules and lessons that are confronted with the real situation at country levels (see Rodrik 2006 on the state of the debate). It is now clear that all these policy rules have some value for policymakers, but that they will remain rather vague and of use for policy reforms only if the steps towards policy reforms are clearly defined and then applied to the country case, and by readily acknowledging the history of policy failures and successes. Important are three steps – the diagnosis of growth and reform problems, the concrete and specific policy design, and an institutionalising of reform (Rodrik 2006). In the context of reconstructing governance, this implies that any workable economic governance programme has to start on the basis of three steps (growth and reforms diagnostics, policy design, and institutionalising reform). If any of these steps is not really carried out, then failures in policy reforms will occur inevitably. None of these three aspects should be neglected. This implies that an ownership of economic policies is requested for all stages and steps as the Washington Consensus policy rules can be applied under quite different governance regimes, institutions, and with quite a different performance.

Most complex and most debated are the issues of economic governance per se. Economic governance requires that market-supporting institutions are at work, and that they are rehabilitated with vigour after conflict. These market-supporting institutions are property rights, regulatory institutions, institutions for macroeconomic stabilisation, institutions for social insurance, and institutions for conflict management (see IMF/Ter-Minassian 2004, p. 6). These institutions are strongly affected by conflict and civil war, and they have to be rehabilitated quickly as there is a strong correlation between the quality of these market-supporting institutions and growth. Therefore, a reconstruction of these institutions is a first task after conflict, and it is a difficult task because of the various impacts of conflict and of natural resources abundance on institutional-build-up. Reconstruction of economic governance has therefore to do with the build-up of institutions that support market development, and so with the level of transaction costs that impacts on doing business and that may facilitate or impede economic governance.

The whole concept of economic governance is, however vague and diffuse (see Elsner/Schoenig 2005), and it is also necessary to consider not only the macro dimension of governance, but also the meso and the micro dimensions. The meso aspects of governance can be investigated on the basis of “mid-sized platforms” such as mid-size groups, sectors, clusters, networks and regions as the arenas where complex interactions and coordination problems are solved (see Elsner/Schoenig 2005, p. 78). Macro governance refers to the “rules of the game” (in the context of the established institutions), and micro governance refers to the specific transactions, the contracts, the investments and uncertainties in the context of the macro governance framework (see Williamson, 1995). In contrast to the “institutional environment” (with the basic rules of the game and the basic market supporting institutions), the “institutional arrangements” (or mechanisms of governance) are important for the daily contact between economic units, and they govern the ways in which these units cooperate or compete (Williamson 1995, p. 174). Over time, the economic units feed back by their transactions, contracts, and investments to the rules of the game by the way of the transactions costs that are occurring in the daily business. The economic units arrange transactions between themselves on markets and use also a variety of alternatives to markets. Complex transactions with “specific assets” need more coherence of basic rules and specific institutional arrangements in order to be successful and recurring. How investors, contractors, entrepreneurs and consumers react to the institutional environment and to the specific institutional arrangements can be analysed in the context of “doing business” and “investment climate” comparative studies (see World Bank 2006, Tables 13.1 to 13.4 on the theme “Capable States and Partnership”). The costs of doing business can differ considerably between countries (and also within countries) even if there are quite similar institutional environments and market-supporting institutions in the compared countries.

Reconstruction of economic governance has therefore a particular meaning with regard to macro, meso and micro governance issues and structures. All the three levels have to be reconstructed in order to lead to a sustainable development process and to allow the establishment of a high-performance economy.

The review of governance concepts has shown that there are various approaches at hand to start with a reconstruction process, and that various schools of thought supply somewhat competing but to a large extent also complementing advice. Especially for countries after conflict and endowed with natural resources the constructive combination of development, participatory and economic governance concepts is imperative for the implementation of realistic reform packages.

Reconstruction of economic governance is complex but important for growth, as the transactions on specific assets will not be contracted so easily in an environment after conflict, and in a situation where uncontrolled access to natural resources has destructed and continues to destruct the institutional environment. The problems with the oil sectors in Nigeria, in Sudan and elsewhere in Africa show how difficult the reconstruction of governance is, and how limited the economic activities under these political and institutional conditions are. In such a situation there is room for investments into high-return activities such as in the oil sector but at the expense of most of the non-oil sector activities. Beside of building up the “rules of the game” and the most important market-supporting institutions the meso institutional arrangements at the level of sectors and regions and the micro arrangements between individual economic actors decide about the performance of the economy and the sustainability of the institutional set-up.

#### **4. Civil Conflict, Resource Abundance and Resource Control: The Reconstruction of Economic Governance is a Feasible Task**

It is important to assess if reconstruction of economic governance in resource-rich countries after conflict is a feasible task at all. Is it possible to reconstruct economic governance after civil war and widespread violence, so as to avoid a recurrence and to reduce the risk of violence and civil war? Is it possible to avoid the risk of a resource curse - especially after civil war and violence - at the national, provincial and local levels, by the reconstruction of economic governance in the field of managing the resource revenues? Is it possible to avoid the risk of a local resource curse and the loss of local resource control, and is it possible to re-establish and to reconstruct comprehensive resource control at the local level? As violence and civil war, resource curse and lack of local resource control have interrelated and negative impacts on growth and human development, we have to analyse these interrelated issues in more detail (see on some aspects of the research Wohlmuth 2006 and 2007).

Researches on the causes and the risks of conflict and on the intensity of conflict have shown the severe impacts on economic variables, especially on fiscal revenues and on public investment and growth. The fiscal impact of conflicts is severe (see Addison/Chowdhury/Murshed 2004), and the loss of fiscal revenues has implications on the functioning of the whole economy. Two important results emerge: Conflicts have a significant and negative impact on the tax-GDP ratio, and the effect rises with the conflict intensity. Lowering the conflict intensity leads therefore to increasing gains in terms of fiscal revenues, growth and development. Governance indicators have significant and positive effects on the

tax-GDP ratio, so that even in countries under conflict governance reforms pay off. Steps and efforts to lower the intensity of conflicts and to improve the systems of governance enhance the efficacy of the tax reforms and of the associated fiscal policy and fiscal institutions reforms (see Addison/Chowdhury/Murshed 2004, p. 262). Lowering the conflict intensity, implementing governance reforms, and speeding up tax and fiscal reforms are highly interrelated efforts, and the reconstruction of economic governance implies that these interrelations are adequately reflected in the context of policy reforms.

Fiscal policy and fiscal institutions reforms matter in the context of any package of reconstructing economic governance as fiscal revenues are important for improving the human situation after conflicts and for designing long-lasting conflict resolution measures. Such reforms are also important to avoid a resource curse or even a deepening of the resource curse, and to re-establish local resource control with regard of the fiscal instruments. Rebuilding of fiscal institutions is therefore a priority task for growth acceleration and a priority task for lowering the conflict intensity and for pursuing effective governance reforms (see IMF/Ter-Minassian 2004). Donor assistance will also be enhanced by such reforms, and adds positive impacts to the positive outcome of reforms. However, we also know that interest groups (governments groups in the government, and rebel and opposition groups) matter in the process and may therefore object and postpone a reduction of the conflict intensity and genuine governance reforms. The interest of all these groups can be modelled, by complicating stepwise the frame of analysis, the number of stakeholders, the involvement of internal and external actors, etc. (as it was done by Addison/Murshed 2005). It is shown by this type of modelling that national and international measures towards conflict resolution can be implemented effectively, and that such measures can specifically target the involved interest groups so as to reduce the conflict intensity. Such behaviour of interest groups during conflicts may also be investigated with analyses based on political economy approaches (see Geda/Degefe 2005 on Ethiopia, and Herbst 2000 on the formation of rebel movements in Africa), by analysing the development history of the country in terms of conflict formations, types of conflict, and changes of power relations over time. Fiscal revenues give an opportunity to lower conflict intensity and to consolidate peace, and therefore fiscal budgeting and planning and institutional renewal in this direction is enormously important for the reconstruction of economic governance effort. This is the key for a turnaround in an economy after conflict.

Reconstructing economic governance after conflict requires that the particular risk factors of civil war and conflict are analysed, assessed and evaluated for designing adequate policy



measures and policy packages. What we know is that there are some crucial factors that are related to such a risk: These factors are a high level of poverty, a relatively slow growth of the per capita incomes, the abundance of primary commodities, the still short number of years of peace duration, the existence of a large population in a country, the difficulties in developing strong institutions, and a high level of corruption (see on these factors and analyses especially the volumes by Clement, Ed., 2004; Basedau/Mehler, Eds., 2005; and Fosu/Collier, Eds., 2005; and the good analytic and summarising reports by Ali 2000, Yartey 2004; Elbadawi/Ndung'u 2005; Gudmundsson 2004; and Staines 2004). All these studies also show us that reconstruction of economic governance is possible if it is designed in a framework that considers interdependencies of factors, external and internal interests, and the implementation capacities and procedures.

The high level of poverty as a cause of civil war can be addressed by appropriate poverty alleviation policies (in the context of new growth and poverty alleviation strategies). The slow growth of per capita income as a causing factor can be addressed by growth-boosting strategies and by broad-based economic and social reconstruction strategies (see on these aspects the model work by Addison/Murshed 2005). The abundance of primary commodities as a factor can be addressed by the effective integration and control of the resource sector and by a diversification of the economy (see Auty 2001; and Wohlmuth 2006 and 2007). The peace duration as a factor can be addressed by supporting vigorously the existing peace agreements (by domestic and international measures and policies). The factor "large populations in a country" can be addressed by policies for an effective federalism, an effective decentralisation, and an effective social reconciliation (see on such an agenda the studies by Baechler/Spillmann/Suliman, Eds., 2002; Larson/Ribot 2004; and Regional Development Dialogue (RDD) 2004). The factor "difficulties in developing strong institutions" can be addressed by developing over time good quality, quality-growth and high-growth institutions, and especially by laying the foundations for market-supporting institutions in the country (see also Fosu 2005; Collier 2005). The factor "high level of corruption" can be addressed by realistic good governance policies in the context of the other policy measures and proposals recommended (see Grindle 2004 on a Good Enough Governance reform concept).

In a virtuous circle model to overcome the vicious circle situation (based on the structural model developed by Elbadawi/Ndung'u 2005 and on the conflict intensity/fiscal revenues considerations by Addison/Chowdhury/Murshed 2004) we can see that there are chances to initiate a virtuous circle and to reconstruct economic governance by a combination of policies that affect the rate of growth, the level, distribution and structure of the per capita income, the

public and the private investments, the public revenues, and the risk and intensity of conflict. Most important are growth-boosting and broad-based economic reconstruction policies, poverty alleviation and income distribution policies, governance reforms that affect public revenues, public investments, and private investments, and policies that lower the risk and the intensity of conflict. If all these measures are initiated, the overall effects on public revenues, on public and private investment, on the rate and structure of growth, and on the level of income will further lower the risk and intensity of conflict. However, this transition from a vicious to a virtuous circle can only proceed if the growth policy is founded on a broad-based reconstruction policy that reduces quickly the high transaction costs for economic units and the high discount rates for investors that have been the results of the escalating conflict (see on the elements of such a broad-based reconstruction strategy Addison/Murshed 2005). The risk of conflict and the intensity of conflict have to be addressed directly and indirectly, especially by considering the various types of risks and then overcoming them by proper action - risks that have led to the conflict (like income and asset disparities between ethnic groups), risks that have occurred during the conflict (like new groups that were benefiting from the conflict), and risks that are inherent in actions after a peace agreement (like the exclusion of groups from the process of implementing the agreement). A package of measures to eliminate the risks and to lower the conflict intensity can be developed and can be part of the virtuous circle strategy. Such a package can consist of revenue-, income- and asset-sharing policies, of policies to compensate losers from the conflict while accepting some of the economic positions of the winners from conflict, and policies to include groups and regions during the implementation of the peace agreement (see on elements of such a package Collier 2005).

In order to affect the level and the structure of the per capita incomes, a comprehensive redistribution and poverty alleviation strategy is requested at national, provincial and local levels, including also a pro-poor asset redistribution to speed up growth and to reduce conflict risks and conflict intensity further. Private investment has to be supported by institutional development measures, especially by strengthening the market-supporting institutions, so that the (objective) transaction costs and the (subjective) discount rates of the investors can be affected positively in a short period of time. Public investment can be accelerated and the role in the growth process can be strengthened if the key role of fiscal policy would be re-established at all state levels and if the related fiscal institutions would be restored. Public revenues play a great role in the growth process and for the reduction of the conflict risks and the conflict intensity. There is a need for broadening the tax base after conflict without giving

disincentives by high tax rates; selective tax incentives for productive sectors may also play a role to initiate a growth process. Designing a new aid and debt strategy with support of donors may also be important for the prevention of new conflict and the consolidation of peace (see also Staines 2004 on what is needed over the conflict cycle in terms of development assistance).

All these elements add up to a virtuous circle of development and growth after conflict. Recurrence of conflict in so many African countries has a lot to do with failures to initiate and to sustain such a circle.

Reconstruction of economic governance after conflict in resource-rich countries has to cope with particularly complex problems. Concerning the definition of resource-rich countries, we have to be precise. The issues of resource abundance, resource availability, resource location, resource exploitation, and resource dependency have to be distinguished analytically quite carefully. In Nigeria with its huge population there is a different situation than in Equatorial-Guinea with its small population. A country like Nigeria may be very well endowed with resources in absolute terms, but in relative terms to its population the resource abundance is more limited (and highly concentrated in some states of Nigeria, and lootable as well as the pipelines can be attacked easily). However, the resource dependency is very high as Nigeria supplies more than 90 percent of its exports revenues in one item - oil. These definitions matter for resource politics a lot (see Basedau/Mehler, Eds., 2005; and Wohlmuth 2007).

Whatever the availability, the type, form and location of resources is, the “resource curse” is the most cited danger for African countries and for other developing and transition countries, and many risks may be related to the abundance of resources in a country, and may be associated with the resource curse phenomenon (see on the rising number of explanations Ross 1999). As illustrated for the case of Nigeria, the dangers of a resource curse could be eliminated on the basis of a radical proposal, by an equal distribution of the resource rent to the people of the country, thereby “eliminating” the risk that something is done wrong with the rents by the state or by other owners and intermediaries (see Sala-i-Martin/Subramanian 2003). In countries with high per capita resource rents the solution to the danger of a resource curse may however be different (an oil savings fund, an enlightened fiscal policy, and adequate social expenditures for the people may be solutions).

Beside assessing the consequences of resource dependence and resource abundance the control of the resource sectors is a major political and economic problem, at national, provincial and local levels, and therefore all state levels are involved in the reconstruction of institutions and governance for resource sectors (see Wohlmuth et al. 2006, 2007). Only by a

firm control of these sectors the resource curse can be avoided. However, the main problem for the reconstruction of economic governance in resource-rich countries is the understanding of the “resource curse”. There are many risk factors associated with the resource curse, and the number of risk factors seems to increase (Ross 1999 distinguishes economic, political, cognitive, societal, state-centred, and other explanations for the observed phenomenon of a resource curse). All these risks (fuelled by so many explanatory factors) may be aggravated considerably by conflicts, as institutions are being eroded in their functions and even destroyed and as the formation of policies might become more difficult.

Identifying the overall risk of the resource curse leads to six major groups of factors that may be relevant (see ODI 2006, and so many other researches). Resource abundance increases the risk that income inequality is aggravated and that poverty alleviation policies are negatively affected. Resource abundance may lead to the risk that Dutch Disease- and Crowding Out-Effects occur, because of the factor movements into the resource sectors, the spending effects from the revenues, and the exchange rate effects from the export booms. The risks are augmented also because of policy failures associated with resource abundance, with regard of economic policies per se, trade policies, debt strategy and policy failures, and communication policy failures with the public in resource-rich countries, etc. Furthermore, risks are aggravated because of the slow human capital development and the inter-generational inequalities that are usually created in such countries. Another group of risks is associated with the decline of efficiency in administration, in macro and in fiscal policies, etc. A last – and very important - group of factors is related to adverse political economy effects, such as corruption, rent-seeking, and localised resource curse effects in the resource-producing areas as they suffer most, because they usually may not get an appropriate share of the benefits so that conflicts over resources destroy the social fabric (see ODI 2006 and Wohlmuth 2007 on these effects). It may be still right to say that the gap has widened between the understanding of the economics and the politics of the resource curse (see Ross 1999, p. 321).

Also the empirical testing on the transmission channels from resource abundance to resource curse is important and is showing that the tendency of under-investment in important sectors (human capital, agriculture, manufacturing, non-resource exports), the political economy effects (impacts on corruption, on rent-seeking, on the social fabric in producing areas) and the effects on institutions (weakening of already weak institutions, thereby increasing the transaction costs) matter in a cumulative way (see also Papyrakis/Gerlagh 2004; Lay/Mahmoud 2005).

Knowledge about factors, actors and transmission channels is broadening, but so far not much with regard to the research on how to manage and how to reconstruct governance in such situations. However, more recognition is laid on these issues recently (see UN Expert Group 2006; Africa Renewal, 2007; Toungui 2006). The emphasis is now more on how to transform natural resources from a peace liability into a peace asset (UN Expert Group 2006), how to transform the natural resources from a curse to a blessing (Africa Renewal 2007), and how to manage revenues along the targets set by Millennium Development Goals (see Toungui 2006).

The identification of the six groups of risk factors mentioned above also shows us that a lot can be done to reconstruct economic governance, but only if it is done in a comprehensive and integrated, in a simultaneous and holistic way. The six groups of factors can be addressed firstly, by pro-active income redistribution and poverty alleviation strategies; secondly, by comprehensive structural and sectoral strategies and policies towards non-resource sectors; thirdly, by economic policies based on long-term planning, smoothing of expenditures, increasing the absorptive capacity for productive investments and using long-term saving instruments; fourthly, by a new human capital development and saving for the future generations policy; fifthly, by formulating and implementing new foundations for an “efficiency revolution” in administrations and the economic policy machinery in such countries; and sixthly, by attacking the severe political economy effects by comprehensive Good Governance Reforms at all state levels.

After conflict however, all the policies are more difficult to pursue because of the devastation of order, the erosion of institutions and the shrinking resource base, but on the other hand the reconstruction of governance after conflict raises similar problems and policy challenges as fighting the resource curse. Addressing the risks of civil war and addressing the risks of a resource curse demand similar lines of action – long-run planning towards a broad-based development strategy, commitment at all state levels, addressing the political economy effects by good governance measures, outlining a new fiscal policy strategy and the building-up of related fiscal institutions, and designing and implementing a broad institutional build-up (this emphasis on institutions is also the result and main message of the many theoretical and empirical studies on how to prevent the resource curse and how to overcome it; see especially on the institutional gap Boschini et al. 2005, and Murshed 2004).

Again, the transformation of a vicious circle towards a virtuous circle is needed. The structure of growth has to be addressed as the non-oil/non-resource sectors are potentially suffering from the resource curse effects. Various direct support measures for agriculture, industry,

crafts, and non-traditional exports are possible and feasible. This can be facilitated by a combination of new economic, fiscal, debt and aid policies, and by addressing the structure of growth and the distribution of incomes and assets. At the same time, the high investment risks have to be reduced by joint action of government, private sector, and the civil society, and governance indicators have to be improved as they also play a role to transform the structure of growth by new investment and increasing confidence of investors. On the other side, resource curse risks can be addressed directly and indirectly, by attacking the specific groups of risks that were mentioned above. This action will impact positively on the other mentioned factors – the structure of growth, economic and fiscal policy, aid and debt policy, investment risk, and governance and capacity building.

Although the transformation of a vicious circle to a virtuous circle is not a simple policy advice, country experiences show that it can be done (not only in Norway and in Botswana, but also in other countries that see the problems and are ready to act). Explicitly stated, the focus on and the support of non-oil sectors can be enhanced (such as it is now tried in the Federation of Russia and in other resource-rich transition countries). This can be achieved by a variety of policy instruments, but all this will succeed only if governance reforms and capacity building measures are undertaken at all state levels to support the process. A comprehensive policy on all relevant risks of a resource curse is possible and feasible but needs an institutional framework that is successively implemented and an economic policy that is well synchronised with fiscal, monetary, trade, debt and aid policies. Support from the people and the civil society for such policies will only be kept intact if employment and redistribution policies focus consequently also on the non-oil sectors of the economy so that resource extraction enclaves in the country would be avoided. A reduction of investment risks in the non-oil sectors is very important (and we know that the same issue emerges in countries after conflict).

There are some focal points to be observed, and we see that policy and strategic matters converge; actions taken after civil war and conflict and in order to avoid and combat the resource curse are therefore similar. So many of the negative development consequences from a civil war and from a resource curse are similar, such as the growth effects, the effects on institutions and governance, the effects on capacities, administration and decision-making, and on investment behaviour. Also the main messages to overcome the respective situation sound similar – how to prevent civil war and the resource curse by democratic reforms, by reforms of economic, corporate and political governance, and by institutional reforms (see Ali 2000). We also know that democratic reforms are difficult to implement in resource-rich

developing countries (see Jensen/Wantchekon 2004), although when established along with strong governance reforms and based on a partnership between governments, civil society organisations and international support institutions it can be achieved. Governance reforms in resource-rich countries such as in Nigeria and Gabon however need stronger elements of transparency and accountability than in resource-poor countries, and we should also distinguish in this respect between old and new petroleum exporting countries (see Wohlmuth 2007). With resource rents to be distributed in a country, democratic reforms can be quickly undermined, but nonetheless a virtuous circle is possible preventing that such an effect occurs. Only strong governance reform packages can avoid the backslide effect of democratisation waves (see Jensen/Wantchekon 2004, p. 836). If we assume and ascertain that emerging resource-rich countries such as the recent oil exporter Sudan depend not only on oil revenues but also on aid flows for reconstruction there may exist conflicting impacts on the political regime, as the two sources of income are working through in receiving countries quite differently in terms of transparency, accountability, effects on democracy, etc. This is an argument for a comprehensive and integrated action on resource and aid income flows (see Wohlmuth 2007). Also the international community's policies and actions should look at both income sources in the overall reconstruction and development process. International community's action and comprehensive domestic action at all state levels are therefore highly complementary levels for actions to reconstruct governance after conflict and to prevent a resource curse.

More than this, resource-based conflicts in Africa also show the need to re-establish both, the institutions of the state and the informal institutions of conflict resolution, and to formulate and implement policies that prevent a further overall deterioration in regions where livelihood conditions were marginalized because of inappropriate handling of issues over natural resources, land and water. It is not simply the scarcity of resources and the competition for such resources that creates conflict (see SID (Society for Information Display) Conference 2005), but often it is the lack of effective participation, of institutionalised negotiations, and of appropriate mechanisms for consensus finding that matters. Scarcity of local resources, competition for local resources and abundance of natural resources of a point-source type require the revival of established conflict resolution mechanisms and the use of new cooperation mechanisms to be handled (SID Conference 2005; Wohlmuth 2007). Therefore it is most relevant to design and to implement a new and innovative natural resources management programme from the central to the local level, in line with the economic governance reform package.

Volatility management is another important issue for an economic governance reconstruction package in order to deal with fluctuating resource revenues and their impacts (see Shaxson 2005 on such issues, and a comparison of old and new forms of resource revenue management). Comparing old and new forms of stabilising the resource revenues and avoiding negative impacts of fluctuating resource revenues, such as oil revenues, is showing that comprehensive and deep economic governance reforms have to be associated with new forms of revenue stabilisation (see Shaxson 2005 on such forms). Savings funds that are directly funded with oil revenues from the oil contracts with international oil companies may be registered and controlled regionally and internationally, and tripartite oil contracts with an international guaranteeing and trust agency may also help in smoothing and governing the oil revenues. There are also many other possibilities to improve the governance of natural resource contracts to the benefit of the people in resource-rich African countries after conflict. Having a long-term relationship with an international or regional organisation based on trust, the transparency and revenue-smoothing goals could be achieved. This may be a further task of the African Peer Review Mechanism (APRM), and so the positive effects of the mechanism could be further enhanced.

## **5. Local Development, Local Resource Control and the Complexity of Economic Governance Reforms**

Reconstruction of economic governance at the local level is an especially complex task. The cases of Nigeria (Niger Delta states) and Sudan (Southern Sudan states with oil discoveries and production) show how the local development is affected by resources discovery and exploitation like oil. Villages are removed, pollution occurs on a large scale, water and cultivable land are becoming even scarcer, people are displaced, military and security compounds are established, infrastructure is created for the resource exploitation, not for the needs of the local people, public revenues are not allocated for the people in the areas, but are siphoned off for other purposes; corruption and rent-seeking affect local government staff and local elites; and local administrations are too often completely pushed away and replaced by central state and military organs. Many more of such effects could be cited, and we know that all this has reasons in the weak state of local governance in African countries (reports by international NGOs are a good source on such developments in local “trouble areas”).

Six issues have to be mentioned with regard to reconstructing economic governance:

Firstly, the “localised resource curse” means that there is an intensification of all the risks of a resource curse at the local level that were mentioned above for the national level, and we



know that the localised resource curse leads also to a serious “economic benefits gap” for the local people (see ODI (Overseas Development Institute) 2006). The risks of civil war and violence and the risks of a resource curse culminate at the local levels. Reconstruction of economic governance after conflict in resource-abundant areas is therefore demanding urgent action at the local levels.

Secondly, there is a limited frame, efficiency and scope of decentralisation in all the developing countries and especially in resource-rich African countries after conflict. The overall results of decentralisation policies and the observed outcome of decentralised governance systems and institutions are unfavourable, although there are differences by country and by region within countries (see Larson/Ribot 2004; RDD 2004). By all key evaluation criteria of decentralisation policies we find rather unsatisfactory results and poor outcomes (in terms of participation, local financing, local planning and administration, local awareness of requirements and needs, upward and downward communication, accountability, and transparency at government levels, and in terms of democracy development and consolidation). If the situation is already unsatisfactory, resource discoveries and conflicts can only deteriorate the situation.

Thirdly, fiscal decentralisation is – as part of overall decentralisation policies – often non-existent or very weak, so that local communities can not really decide about the revenues entitled to and about the expenditures scheduled and to be allocated; the necessary institutional base for a local fiscal policy, a local budgeting and a local project planning does not exist. There are delays of central allocations, there is a lack of transparency with regard to entitlements of local entities, there is a lack of control over expenditures, and a lack of capacities. After resource discoveries and after conflict the local communities will not get more of such competencies and allocations, and the institutions are still weaker to do this job at the local level.

Fourthly, the resource competition in the areas increases with the resource discoveries, as land, water, skills, and administrative capacities are more and more used for exploration, extraction and for production purposes with regard to the “abundant resource”. The competition for scarce environmental goods and for local public goods also increases, and pollution and degradation of nature affect the poor people; the limited supply of local public goods is another important factor harming the local population. The scarce local factors are used for the production of the “abundant natural resources”. All this makes the situation worse for the local people (the transformation of resource conflicts is made even more difficult; see

Baechler/Spillmann/Suliman, Eds., 2002 on the strategies for the transformation of resource conflicts into peaceful and sustainable development strategies).

Fifthly, the lack of local legal, operational and political competencies with regard to natural resources management is the most serious problem. Central governments in developing countries always have been hesitant to give local communities sufficient legal and political competencies to decide on natural resources management, and we cannot see any improvement in this respect (see Larson/Ribot 2004). As exportable resources are discovered in an area, the willingness of central governments to grant local management rights is diminishing even further, and after conflict the local institutions are too weak to respond to the management needs.

Sixthly, the lack of downward and upward communication, accountability and transparency in a democratic context and based on effective governance structures reflects the fact that the relations between central, provincial and local government levels are not development-friendly. Neither downward nor upward the governance structures work between government levels; the communication channels are not working, and the accountability and transparency principles are not put into action. The central government is not made accountable and is not forced to become transparent for its decisions and doings in local areas, and the local governments are too weak to respond to the demands for accountability and transparency that are raised from the upper levels of government.

Despite so many obstacles towards local development there are possibilities to turn a vicious circle into a virtuous circle by comprehensive and determined action. The local resource curse can be attacked by improving fiscal and natural resources management at local levels, by strengthening the local institutions in these fields, by capacity building towards these areas, and by empowerment initiatives to induce concerted action at local levels. However, this requires that government at local level, civil society, and the private sector share in the task of overcoming the localised resource curse, but also the international resource extraction corporations, working in the area, and the other government levels, cooperating with them on resource exploitation, have to be involved. The local resource curse can be attacked also by determined and far-reaching governance reforms at local and other state levels, by new capacity building initiatives, also supported by NGOs and other donors, and by local growth, poverty alleviation and income redistribution initiatives (parallel to the respective actions at the national levels). Aid policies and debt strategies from the government and the side of the donors can support such local development initiatives. From the side of resource competition there is another avenue to break the vicious circle, and to reconstruct economic governance to

the benefit of the local people. The resource competition at local levels can be channelled towards an orderly form by strengthening natural resource management and fiscal management at local levels, so that the demands for scarce resources in the area are balanced and brought to sustainable levels. Regulations, based also on local legal and socio-economic principles, can be put in place, and thereby current and new demands for resources can be influenced, constrained and controlled. Resource competition can also be affected by production and export diversification, by employment and growth policies at the local levels, by shifting production to new and more resource-saving products, by social support policies, income redistribution and poverty alleviation measures, and by broad-based governance reforms and property rights reforms in order to regulate the access to resources.

Reconstruction of economic governance at local levels therefore can be enhanced from two sides, from the resource competition side and from the resource curse side. All such measures can be integrated into a local capacity development strategy (the studies by Castro 2005 and on the SID Conference 2005 show that there are various approaches available for the local development renaissance, and that there are new models in development thinking to benefit from).

## **6. Policy Conclusions, Policy Recommendations and Outlook**

In this introductory paper we have identified in section 1 the necessity to identify the needs and the means of reconstructing economic governance after conflict in resource-rich countries, for the purpose of enabling policymakers and governing bodies to implement in such regions new economic and social policies on the basis of reestablished institutions. In section 2 we have outlined the research needs in this direction because of the neglect of so many issues in the researches on Africa's resource-rich countries after periods of conflict. We have also worked in this introductory paper on outlining a broad concept of economic governance that is incorporating also the particular problems of such countries with regard to institutional renewal and reform. We then have outlined in detail the steps towards a reconstruction of economic governance, to reduce the risks of a new civil war and violence, and the steps towards a reconstruction of economic governance to reduce the risks of (or even to prevent) a resource curse to occur. Further on we have discussed the steps to reconstruct economic governance at the local levels in such countries in order to prevent and to overcome the effects of the localised resource curse and the local effects of conflict and civil war.

We found it necessary to start with a broad concept of economic governance that incorporates all elements of economic governance of capable states, therefore also development and

participatory governance issues, and micro, meso and macro issues of economic governance. Only such a broad enough concept of economic governance is adequate to understand fully the problems of renewing institutions and governance mechanisms in such areas, and to design strategies to reduce the risks of renewed conflict and of a resource curse.

Reconstructing economic governance after conflict and civil war means first of all that the major risk factors have to be identified and that awareness about their respective importance is created. Upon this basic work it is necessary to draw conclusions in terms of governance reforms that are related to these observed risk factors, and that they are sequenced accordingly. The research done in the field has identified many important risk factors, and so we know now much more about a feasible strategy to prevent conflicts and the occurrence of a renewed civil war. Partnerships between national and local stakeholders, coalitions between internal and external interest groups, compensation and redistribution agreements between winners and losers from war and conflict are instruments, but have to be brought under a common frame for action. Economic policy in such areas can support sustainable development and durable peace, but only if the economic governance reforms are pursued vigorously.

Reconstructing economic governance in resource-rich countries requires first of all that the risk factors of a resource curse are identified properly, and that the governance reforms at all state levels are directly related to these observed factors. We know now a lot more about these factors, and we can also assess now the importance of a comprehensive package of reforms, that is implemented sequenced and timed according to the initial conditions and the political and historical influences at work. Only such a package of reforms will allow it to devise strategies to prevent and to combat a resource curse.

There are similar strategies to be pursued after conflict and in situations of a resource curse as both phenomena lead to a destruction of institutions, of all policymaking competencies, and of the national capacities. Fiscal reforms, governance and institutional reforms, structural and redistributing policies, and capacity building measures are helpful for both areas of action. Country evidence from resource-rich Africa after conflict shows that such reforms of the economic governance mechanism can be supported by donor policies, by partnerships, and by long run planning.

Most complicated are reforms in the areas of local economic governance reforms, as the devastating local effects of civil war and violence and the distorting effects of an increasing resource competition and a localised resource curse interact in a negative spiral and culminate in disastrous effects on local people and local capacities. However, a lot can be done by

governance reforms that lead to new forms of local fiscal and natural resources management, by development partnerships concerted at the local level, by donor support that is channelling funds and expertise in a targeted way to these areas, and by experimenting with new models for the reform of local development governance.

Concluding, we could observe an increasing awareness that the reconstruction of economic governance is a feasible task in African resource-rich countries after conflict, and that the challenges and opportunities are determined and realised.

However, a warning is justified. Governance reforms – as important as they are - have to be balanced by appropriate social and human development policies and reforms, and by a wide range of other structural policies and reforms. If there is a disconnection, then the outcome of the governance reforms may be disappointing. From the Asian developing countries one can learn more about this vital interconnection between governance and growth in the process of development and structural change (see Quibria 2006). Also important are the efforts to improve the governance indicators and indexes so that they grasp not only the content of the six dimensions of political governance in the KKZ (Kaufmann, Kraay, and Zoido-Lobaton) index, but also components and indicators of economic and corporate governance. As in some developing countries, not only in Asia, unconventional and informal institutions of political and economic governance play a role, country cases give additional insights into the growth and governance interconnection. Especially in countries after conflict and richly endowed with natural resources such unconventional forms of governance institutions may have a role to play. A more disaggregated view of governance can also help to highlight successes and to understand better the failures in governance. Especially “government effectiveness” and “regulatory quality” made the Asian miracle countries prosper at their stage of development. So the stage of development also comes in so as to use governance indicators more adequately for policy purposes. Governance indicators that are adapted to the stage of development and dimensions of governance that are of critical development importance matter for policy interventions (see Quibria 2006). This wider analysis of governance issues in resource-rich African countries after conflict was attempted in this study – so as to include such governance issues into the discussion of post-conflict reconstruction strategies in African resource-rich countries. Because of the great importance of reconstructing economic governance in such countries for creating and consolidating political governance institutions and even democratic regimes (see in this context the study by Tabellini 2005 on the interactions and feedbacks between economic and political changes) the research has focussed primarily on the often neglected issues of economic governance.

For development policy and for development cooperation many important lessons follow from the recent academic and practical discussion about the resource curse. The important recent studies on the issue are full with controversial assessments (see Collier/Goderis 2007; and Lederman/Maloney, 2007). Although controversial in analytical frameworks and in results these studies point to the role of an active public policy, and especially to the roles of institutions, technology adaptation, human capital accumulation, innovation, education and training. Most important, the resource curse can be avoided by creating and sustaining good institutions and by turning the policy machinery towards pro-active governmental policies. Overall, the important debate on natural resources as a “curse”, a “destiny”, or a “blessing” is still open, but for countries after conflict and richly endowed with natural resources, there are new chances and windows of opportunities to avoid a curse and to make the people benefit from the resources. These countries have to build up from the scratch new institutions and a new policy-making machinery, and they have to formulate a new pro-active policy so as to minimise all dangers of a too high public and private consumption, of rent-seeking, of neglecting other productive sectors, and of overvalued exchange rates and an instable macroeconomic framework, and to enhance on a long-term basis resource-led growth by “intelligent public policies” (Lederman/Maloney, 2007, p. 10). Crucial are technology acquisition, human capital accumulation, all forms of education and training as the historical studies on the resource-led growth country cases emphasize highly complementary roles of natural resources and knowledge in the development process as crucial factors for success.

The necessity to rebuild institutions after conflict means that also local government and local governance have to be rebuilt on the ground what also makes it possible to move directly from local government (governing by using power over people) to local governance (governing by using power for people). In this second meaning governing - local governance - visionaries and facilitators act as local entrepreneurs (not only administrators, but also private sector people and NGO staff, and not isolated, but in joint action). “Bottom-up entrepreneurs” are acting as facilitators and “top-down entrepreneurs” are acting as visionaries, and these two groups of local actors can build a coalition in such cases as in the states of South Sudan and in the Niger Delta states (see Brugue/Valles 2005). The path from traditional government to modern local governance is important especially for countries after conflict and endowed with natural resources. Although the wide discussion about the New Partnership for Africa’s Development (NEPAD) and about its corollary, the African Peer Review Mechanism (APRM), is important, it centres still too much on the national/central level of governance (see Hope, Sr. 2005; Klingebiel/Grimm 2007). Peer reviews are also important for the sub-

national levels of states, municipalities and provinces – in countries and cross-border. Although not explicitly considered, it is part of the agenda of the APRM, but the local level is not included adequately and systematically.

The pessimism about the prospects of such countries that are highly afflicted by conflicts but richly endowed with resources can become self-fulfilling (see on this pessimism related to African oil producers in the “new scramble for African oil” the study by Frynas/Paulo 2007). Recent studies also show that it may be quite detrimental for development cooperation if poor countries with poor people are labelled as poor development performers on the basis of an inadequate methodology and inadequate indicators (see especially Anderson/Morrissey 2006), and if all this is further associated exclusively with bad/poor governance, thereby ignoring other factors of poor performance like the economic structure, the quantity and quality of aid, and the extent of instability and inequality affecting the country. If countries after conflict are singled out as fragile states, as weak states, as badly governed states and if they are also labelled as poor performers, then the danger of a vicious cycle is great. However, a virtuous cycle is feasible when regarding, analysing and acknowledging the crucial factors in the reconstruction process of such countries.

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# Reconstruction of Economic Governance in Conflict-prone, Resource-rich African Countries and the Role of the African Peer Review Mechanism<sup>1</sup>

Afeikhena T. Jerome

## Preamble

*The Chair, my good friend Prof. Karl Wohlmuth, distinguished scholars and friends. I am delighted and humbled to have been called upon to make this keynote presentation.*

*It is indeed a privilege and an honour to participate in this workshop. I wish to take this opportunity to thank Prof. Karl Wohlmuth, the Director of IWIM, for finding me worthy of this task. Indeed, the striking assemblage of thoughtful, knowledgeable and committed scholars reassures me. I am further convinced that in the sessions that follow, there will be people able to speak far more authoritatively on the issues than I possibly could. I wish to pay tribute to the hardworking Director of IWIM and his staff for making it possible, once again, for the cream of dedicated scholars on Africa, to come together.*

## 1. Issues

Africa has the bizarre and dubious reputation of being the world's leading theatre of conflict, war, poverty, disease, and instability despite recent advances on several fronts.

In sharp contrast with the 1990s, conflicts in Africa have declined from a peak of 18 in 1993 to 8 in 2006, economic performance has improved, and some clear "high performers" are beginning to emerge. Since the year 2000, 12 sub-Saharan African countries have had average growth rates of 5 percent or above as shown in Table 1. Across the continent, countries are advancing in all spheres of transformation. However, making headway in the fight against poverty and meeting the Millennium Development Goals are raising difficult challenges in most African countries.

At the start of the 10-year countdown to 2015, Sub-Saharan Africa, the world's poorest region, faces the largest potential deficit in meeting the *Millennium Development Goals (MDGs)*. The UN's *Millennium Development Goals Report 2006* indicates that on almost all of the 18 targets identified in the Millennium Development Goals, Sub-Saharan Africa (SSA) remains the region with the worst performance in meeting its peoples' basic needs. There was

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<sup>1</sup> This is a revised and extended version of the contribution in Wohlmuth/Urban, Eds., 2007. The paper was presented as keynote lecture in the conference "Reconstructing Economic Governance after Conflict at Local, Provincial and National State Levels in Resource-rich African Countries. Comparative Analyses", Bremen, November, 15<sup>th</sup> -17<sup>th</sup> 2006.

minimal improvement between 1990 and 2005 on 11 indicators, and deterioration on the rest. For example, on the first goal or the ‘overarching’ MDG – the halving of income poverty - the proportion of SSA’s population living on less than \$1 per day worsened from 44.6% to 46.4%, with the absolute number rising by 38 % from 227 million people to 313 million. Despite the drop from 36% to 33% of the share of the population living in a state of hunger, the number of people increased by 34 million. The pockets of success notwithstanding, nearly half the region’s population still lives in extreme poverty, and Africa still houses about three quarters of the world’s poorest countries (World Bank, 2006).

As noted by UNIDO (United Nations Industrial Development Organization, 2004), it is neither appropriate to discuss Africa’s economic performance at such a high level of aggregation nor is it necessary to go to the other extreme and treat each country as being unique. Consequently, following UNIDO (2004), we have classified sub-Saharan African countries into three distinct groups: natural resource-rich countries; coastal countries; and land-locked countries. There are, however, inevitably some judgment calls in classifying countries according to these categories. For example, all countries have some natural resources; the issue is therefore, at what magnitude they become critically significant for the economy.

16 countries are categorized as natural-resource-rich economies, though some of them are land-locked; 20 countries are coastal economies, though lacking significant natural resources but having good coastal access; and 12 countries are landlocked, and these economies have neither natural resources nor a coastal location (see Table 1).

A cursory examination of Table 1 indicates that Sub-Saharan African countries have exhibited a varying degree of performance, with growth generally favourable in recent years notwithstanding the categorisation. This could be attributed to a benign global environment accentuated by surging primary commodity prices, the gains from economic reform, and unprecedented debt relief. Palpably, the recent favourable growth performance has not been translated to sustainable human development. With the exception of Yemen (ranked 150) and Haiti (ranked 154), the bottom 31 countries with a low Human Development Index (HDI) in the ranking of 177 countries worldwide, on the basis of the HDI performance in the UNDP (United Nations Development Programme) Human Development Report (2006), are all African countries. Coincidentally and not unexpected, African countries also occupied 10 places out of the 15 countries in the 2006 Annual Failed States Index compiled by the Fund for Peace.

Land-locked countries without natural resources, which constitute the largest grouping, are best thought of as having rather limited *autonomous* opportunities. This is illustrated by



Malawi, which in the last 40 years or so has avoided both internal conflict and major policy blunders, yet it has little to show for it. It has grown only very slowly. Such countries are not 'doomed', but to a significant and disturbing extent, their success does not lie in their own hands, but rather in the hands of their better-favoured natural-resource-abundant and coastal neighbours (UNIDO, 2004). Recently, some landlocked countries, notably Uganda, Rwanda and Burkina Faso, have grown quite rapidly, following periods of decline. What remains to be seen is how far and how fast incomes can rise beyond their previous peaks.

Resource-rich countries have fared particularly badly on all counts. While growth rates have been significant in recent years due to the commodity boom, this is yet to be translated into sustainable human development. Only Botswana has so far managed its resources prudently. For several reasons that were explored in the African Development Perspectives Yearbook of 2007 (Wohlmuth et al., 2007), most of the world's natural-resource economies have not been very successful in transforming rents into sustainable growth (Sachs and Warner, 1995). Countries endowed with resource wealth have consistently under-performed resource-poor countries on almost every indicator of progress, ranging from human development, economic growth, democracy and good governance, and preserving the peace. In addition to suffering from poor governance, most natural resource-exporting countries are vulnerable to violent conflict.

The problem of managing petroleum wealth, for example, is so universal that a rich vocabulary has been developed to describe it - the "resource curse," the "paradox of plenty," the "Dutch Disease," "flawed prosperity," "economic indigestion," "the devil's excrement," and even the "banyan tree problem", all expressions have been used to describe this essential paradox. Numerous statistical and case studies have found not only a correlation but also a causal link between natural resources and civil war. Natural resources play a well-established role in fuelling and sustaining conflict. This is most evident in Africa, but also plays out in other parts of the world. Research by the Oxford economists Collier and Hoeffler (2000) suggest that in any given 5 year period the chance of civil war in an African country ranges from less than 1% in countries without resource wealth to almost 25% in those with such a wealth.

**Table 1: African Countries by Opportunities**

<b>Country and Grouping</b>	<b>Average Annual GDP Growth Rate (2000-04)</b>	<b>HDI Score/Ranking out of 177 (2006)</b>	<b>Ranking on Failed State Index, out of 146 (2006)</b>
<b>Coastal Countries</b>	<b>Range (-8.7-8.9)</b>	<b>Range (0.349-0.800)</b>	<b>Range (3-110)</b>
Benin	4.1	0.428/163	90
Cape Verde	4.1	0.722/106	....
Comoros	2.2	0.556/ 132	....
Cote d' Ivoire	-0.6	0.421/164	3
Djibouti	..	0.494 / 148	...
Eritrea	3.6	... /157	...
Gambia, The	3.2	0.479 /155	83
Ghana	4.6	0.532/ 136	106
Guinea-Bissau	3.0	0.349 /173	46
Kenya	2.7	0.491 /152	34
Liberia	-8.7	..	12
Madagascar	0.9	0.509 / 143	...
Mauritius	3.7	0.800 / 63	118
Mozambique	8.9	0.390 / 168	80
Senegal	4.4	0.460 / 156	99
Seychelles	-2.1	0.842 / 47	...
Somalia	--	...	7
South Africa	3.4	0.653 / 121	110
Tanzania	2.9	0.430 / 162	71
Togo	2.6	0.495 / 147	38
<b>Natural Resource-Rich Countries</b>	<b>Range (1.6- 14.7)</b>	<b>Range (0.338-0.653)</b>	<b>Range (2-96)</b>
Angola	8.1	0.439 / 161	37
Botswana	5.5	0.570 / 131	96
Cameroon	4.1	0.506 / 144	36
Chad	14.7	0.368 / 171	6
Congo Dem Republic	3.7	0.391 / 167	2
Congo (Rep)	3.1	0.520 / 140	...
Equatorial Guinea	11.8	0.653 / 120	52
Gabon	1.6	0.633 / 124	84
Guinea	3.0	0.455 / 160	11
Mauritania	3.7	0.486 / 153	...
Namibia	4.7	0.626 / 125	91
Nigeria	5.4	0.448 / 159	22
Sao Tome & Principe	4.0	0.607 / 127	..

Sierra Leone	11.2	0.338 / 176	17
Sudan	6.0	0.516 / 141	1
Zambia	4.6	0.407 / 165	66
<b>Land-locked Countries</b>	<b>Range (-5.9-6.3)</b>	<b>Range (0.311-0.502)</b>	<b>Range (5-81)</b>
Burkina Faso	5.2	0.342 /174	30
Burundi	2.3	0.384 /169	15
Central Africa Republic	-2.0	0.353 /172	...
Ethiopia	3.7	0.371 /170	26
Lesotho	3.2	0.494 /149	...
Malawi	3.0	0.400 / 166	29
Mali	6.3	0.338 /175	81
Niger	3.9	0.311 /177	44
Rwanda	5.2	0.456 /158	24
Swaziland	2.4	0.500 /146	..
Uganda	5.4	0.502 /145	21
Zimbabwe	-5.9	0.491 /151	5
<b>Sub-Saharan Africa</b>	<b>4.0</b>	<b>0.472</b>	

Sources: Compiled from World Bank (2006), African Development Indicators; Fund for Peace (2006) Failed States Index; and UNDP (2006), Human Development Report.

Natural resources can play a destabilising role even before the outbreak of armed conflict, by providing incentives for large-scale corruption, and by destabilising economies by creating a boom and bust environment. This dynamics had been evident for many years in cocoa-rich Côte d'Ivoire, for example, directly contributing to the coup attempt and the subsequent de facto partition of that country.

Despite the development challenges of the last decades exacerbated by a range of several factors including conflict, institutional decay, leadership and managerial deficit, endemic corruption and economic mismanagement, Africa entered the new millennium with optimism and a commonly derived and broadly supported roadmap of how to overcome these development deficits. This includes advancing the basic values of democratization and good governance which together constitute the key requirements for sustainable development.

In recognition of the imperatives of good governance for development, the African Peer Review Mechanism (APRM) was adopted in 2003. The Mechanism, which is turning out to be the most innovative aspect of NEPAD, is an instrument voluntarily acceded to by member states of the African Union (AU) as a self-monitoring initiative for good governance.

In what follows, we appraise the role of the APRM in economic reconstruction in resource-rich, crisis-prone African countries.

## **2. Conflicts in Africa**

Since the end of the Cold War, nearly half of the African countries have experienced conflict with varying intensity. The genocide and ethnic cleansing in Rwanda and to some extent in Burundi, the civil wars in Liberia, Sierra Leone, the Democratic Republic of Congo, Sudan, Cote d'Ivoire and Somalia, the minority uprisings in Nigeria and the separatist agitation in Cameroon and in Senegal represent reference points of the turbulence on the African continent. In addition, conflicts of varying magnitudes, mostly local but no less state-threatening, have ravaged many other countries including Ghana, Zambia, and Benin, which were regarded for a long time as peaceful and less prone to deadly conflicts. Although the conflicts generally have deep historical roots that date back to the colonial and even the pre-colonial periods, they became more prevalent and destructive in the post-Cold War period.

Marshall (2005)<sup>2</sup> estimated that the numbers of countries affected by war in Sub-Saharan Africa during the Cold War period hovered around one-quarter of countries in the region (about 10 countries each year from the mid-1960s through the late 1980s), although the number of conflicts and the magnitude of those conflicts tended to increase during the period. The number of states directly affected by serious armed conflicts increased sharply during the transition to a post-Cold War political environment (to a peak of 18 in 1993) and then declined to 8 by the end of 2004. The recent steep decline in war magnitude trends since the early 1990s reflects the coming to an end and the cessation of hostilities in Africa's most serious and protracted wars, such as the wars in Mozambique, Ethiopia (Eritrean separatism), Liberia, Sierra Leone and Angola.

## **3. Causes and Effects**

Full understanding of the nature, the origins and the impact of current armed conflicts in Africa is necessary, if they are to be taken into account in the strategies formulated for integration, peace building and reconstruction to avoid a re-fuelling the conflict. Although there are some inter-country conflicts, most violent conflicts in recent decades have taken place within - rather than between - states. Some conflicts are countrywide (Rwanda) and others are localized in a specific part or in specific parts of a country (Sudan). Their origins, often multifaceted, range from ethnic and economic inequities, social exclusion of segments of the population, social injustice, competition for scarce resources, poverty, lack of democracy, and from ideological issues to religious differences (Nigeria and Sudan) and to

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<sup>2</sup> See Conflict Trends in Africa by M. G. Marshall (2005).

political tensions. The conflicts in the Sudan, Burundi and Rwanda are, in a large measure, the result of historical disparities between the ethnic or tribal constituents of the population.

A good number of conflicts in countries such as Liberia, Sierra Leone and the Democratic Republic of Congo (DRC) are characterised by periods of activity and periods of dormancy. The halcyon periods have proved to be elusive and ephemeral, and quite often punctuated by more, not less, violent conflict.

The underlying causes of conflict in Africa can be categorized into three groups, namely; enabling factors; mobilising factors and triggering events; as well as root causes of conflict, which may further enhance an understanding of the conflict dynamics. Root causes lead to conflict by generating deep political, social, economic and cultural divisions that can be exploited; such causes may include extreme poverty, gross inequalities and a weak state capacity. Enabling factors are not sufficient on their own to cause conflicts but exacerbate root causes or contribute to an environment that facilitates armed conflict. Exclusionary government policies, external support for repressive regimes, and small arms proliferation are a few examples of such enabling factors. Mobilising factors are issues of individual or collective significance, such as religion, ethnicity and economic conditions, through which utilization the people can be readily induced to engage in violent action while forsaking civil responsibility. Often, these issues are only loosely connected to the original underlying grievances but the promoters of conflict exploit such factors in an effort to mobilize youth and to win over domestic and international public opinion, turning them into formidable obstacles to peace. Finally, immediate causes or triggers are factors that affect the timing and the onset of the violent outbreak but are neither necessary nor sufficient to explain it.

Prolonged civil wars have significant economic repercussions. At the macro level, economic and social infrastructure such as transport and communication, banking, healthcare, education, and agricultural research and extension systems suffer extensive damage as a result of the fighting or the lack of maintenance. Iraq, Afghanistan, Somalia and Sudan are good examples, as virtually all their physical infrastructures have been destroyed due to the conflicts. At the same time, indebtedness typically reaches very high levels, and unsustainably large military budgets constitute an additional drain on resources in those countries.

At the micro level, conflicts generate a variety of serious problems associated with human capital, land and the environment. Human resource shortages are particularly severe in war-torn societies. For instance, tens of thousands of Sudanese professionals such as doctors, lawyers, teachers and researchers were often been targeted during the Sudanese civil wars, forcing them to seek refuge in other countries. In addition, educational opportunities decrease

during conflict times, as schools are closed or students opt or are forced to participate in the conflict rather than to complete their studies. Conflict-related population movements often abuse fragile ecosystems, notably hilly and coastal regions, lead to the over-exploitation of natural resources to finance the war, and to a destruction of physical infrastructure. Usually the small producers feel the effects of such conflicts-induced environmental degradation, particularly in the rural sector.

An important corollary to the recent decline in organized and sustained armed conflicts in many areas of Africa is an over-abundance of unemployed, armed fighters in a region that offers limited opportunities for reintegration of former combatants into a peacetime economy. The life experiences, the skill set, and the “tool box” of the ex-combatants provide powerful incentives for many to pursue post-war occupations in banditry, organized crime, mercenary activities, or “strong arm” politics. Over the medium term, (about 25 years on average), it should be expected that the pacification, transformation, and reintegration of former combatants, as well as of populations traumatized by the violence and deprivation of war, will place enormous strains on local economies and political systems which have themselves been seriously weakened by the war experience. It is worth emphasizing that Africa is home to some of the best-known resource-related conflicts in the world today, but these conflicts are by no means limited to that continent. So what can we do? There is no special recipe for dealing with resource conflicts. For the most part the policies required to deal with these conflicts are the same as those required to generate sustainable development - namely transparency, promotion of good governance, establishing an effective rule of law, accountability, and empowerment of local communities.

#### **4. The Post-conflict Situation - What are the Issues and Challenges?**

The recursive nature of African conflicts has catalysed attention on the multiple challenges of re-building countries emerging from conflict. Further, the end of conflict does not necessarily mean the end of problems. The transition process from war to peace entails not only overcoming the structural causes that originally sparked the fighting, but also effectively mitigating ongoing conflict and dealing with the legacies of conflict, which define the challenges of the post-conflict situation.

There is need to find enduring solutions to Africa's seemingly intractable conflicts, that will transcend the mere ending of hostilities to include post-conflict reconstruction, rehabilitation and reintegration. Experience has shown that most of Africa's conflicts have been recursive because solutions have often been truncated and short sighted, leaving out the full range of

conflict resolution mechanisms that must necessarily include post-conflict reconstruction. The efforts to integrate lives and livelihoods in societies emerging from civil war into relative peace are necessary in order to prevent recidivism into violent conflict, to ease the transition to sustainable peace after the hostilities have ceased, and to support socio-economic development.

The challenges of post-conflict reconstruction are numerous and a detailed discussion is beyond the scope of this paper. Efforts in post-conflict peace building have tended to focus on the following areas:

- Restoration of law and order, security and pacification of hostile territories;
- Establishment of interim governance (including law-making, adjudication, enforcement, as well as policy formulation and implementation) institutions;
- Re-integration and resettlement of refugees and Internally Displaced Persons (IDPs);
- Reconstruction and rehabilitation of the damaged infrastructure; and
- Re-ignition of the economic engine (to facilitate resuscitation of full-scale economic activities and setting the country on a path to peaceful and inclusive development)

Unfortunately, the complexity and enormity of the socio-political and institutional challenges facing post-conflict societies are often not fully taken into account when setting the reconstruction priorities, and when deciding on the logic and sequence of post-conflict operations. While responses will differ from one context to another, it must be stressed that action can and often must be undertaken on several fronts simultaneously. There is no unique sequence of activities that requires that action can only proceed on one step after the other has been completed.

## **5. Re-ignition of the Economic Engine**

Even during a conflict, some normal economic activity takes place, but increasingly activity is disrupted or driven underground. The fall in production during conflict encourages the smuggling of those goods that are no longer produced. Conflict itself provides opportunities for illegal economic activity, such as drugs production, illicit exploitation of natural resources, trafficking in small and light weapons, illegal logging and mining, in areas outside the control of the government. These activities also provide the means to finance an armed struggle by rebel groups and to give such groups an economic stake in the continuance of the conflict (such as in the case of rebel forces in Angola). If the country has been subject to sanctions, this can also complicate the resumption of normal economic activities, as one of the effects of sanctions is it to encourage sanction-breaking activities outside the normal economic sphere.

One of the aims of the post-conflict state is it, then, to motivate the underground, parallel market operators to participate in open and legitimate transactions. Another aim is it to ensure that economic policy reduces rather than increases the possibility of conflict. A pattern of development that marginalizes important groups from economic activity and that concentrates the benefits of economic advance in the hands of a small elite can contribute to eventual armed conflict. An examination of the socio-economic factors that contributed to the conflict in the first place can lead the way to the adoption of economic policies that address these factors. Among the measures that should be undertaken in pursuit of this confidence-building and economic normalization objective are:

- The formulation of sound gender-sensitive macro-economic, fiscal, and monetary (including commercial banking) policies;
- The strengthening of the capacity of law-enforcement and judicial agencies;
- The implementation of trade policies aimed at the integration of the country into the global economy;
- The inculcation of service-delivery, “customer-caring”, and investor-friendly attitudes in all cadres of the public service;
- Provision of financial, technical advisory, and information services to small- and medium-scale enterprises, including enterprises that are run by women; and
- Provision of sundry “match-making” services to link the domestic with the foreign investors, and the local producers, including women producers, with the world market

However, these are only tools available to policy-makers to achieve the wider objective of long term, sustainable and inclusive development. As stressed earlier, it is vital that the country develops a widely accepted and nationally owned strategy for development that is, in turn, enthusiastically implemented by the government. Transparency, particularly as regards the sources and uses of government income, especially from sources such as rents from natural resources, that have caused conflicts in the past, should be an essential part of this strategy. Not just aid, but the permanent and generous opening of developed country markets to the goods and services of post-conflict countries can help making development sustainable. The return of capital that has fled the country during conflict and the attraction of new capital, in particular foreign direct investment, can follow from the cessation of hostilities, but would be facilitated by supportive gender-sensitive micro- and macroeconomic policies that create an overall enabling environment for long-term development. Debt relief can also be a vital element in assuring the restoration of long-term growth. For many of the poorest countries that are most prone to conflict, domestic policies, if unsupported by a favourable external



environment, could prove inadequate to assure long-term sustainable growth. In these cases, the role of the international community is of particular importance.

## **6. The African Peer Review Mechanism (APRM)**

In recognition of the imperatives of good governance for development, the Sixth Summit of the Heads of State and Government Implementation Committee (HSGIC) of the New Partnership for Africa's Development (NEPAD), held in March 2003 in Abuja, Nigeria, adopted the Memorandum of Understanding (MOU) on the African Peer Review Mechanism (APRM).

The African Peer Review Mechanism, widely heralded as the jewel in NEPAD's crown, is an instrument voluntarily acceded to by member states of the African Union, as a self-monitoring mechanism intended to foster the adoption of policies, standards and practices that lead to political stability, high economic growth, sustainable development, and accelerated sub-regional and continental economic integration through a sharing of experiences and the reinforcement of successful and best practices, including identifying deficiencies and assessing the needs of capacity building (APRM Base Document 2001, paragraph 3). It is a commitment to African governance standards and the tool for implementing the codes and standards enshrined in the African Declaration on Democracy, Political, Economic and Corporate Governance.

The APRM is designed as a mechanism whereby countries voluntarily "open their books" to be examined within a formal structure according to established guidelines. Teams of African experts in various spheres will assess and give critiques to the countries' governance performance based on a number of key indicators in four thematic areas, namely: political governance, economic governance, corporate governance, and socio-economic development. It is a non-adversary learning process among peers that relies heavily on mutual trust among the states involved in the review, as well as shared confidence in the process. The overarching perspective of the APRM is good governance predicated on participation, regularity, accountability, inclusiveness, openness and transparency, and its relationship to efficiency and responsiveness. The core principle is that every review exercise carried out under the authority of the mechanism must be technically competent, credible and free of political manipulation.

Participation in the process is open to all member states of the African Union, and so far, twenty-six member states of the AU have voluntarily acceded to the APRM. These are: Algeria, Angola, Benin, Burkina Faso, Cameroon, Egypt, Ethiopia, Gabon, Ghana, Kenya,

Lesotho, Malawi, Mali, Mauritius, Mozambique, Nigeria, Republic of Congo, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, South Africa, Sudan, Tanzania, Uganda and Zambia. Accession entails undertaking to submit to periodic peer reviews and to facilitate such reviews. It includes commitment to implement the National Programme of Action (NPOA) arising from the peer review, and operationalizing the agreed parameters for good governance across the four thematic areas, namely; Democracy and Political Governance, Economic Governance and Management, Corporate Governance; and Socio-Economic Development.

The APRM is built around the duality of national processes by which countries a) evaluate their state of economic, political, social and corporate governance on the basis of the agreed indicators and criteria and then b) prepare a national Programme of Action (POA) on the basis of which they are peer-reviewed through an external process of validation that is anchored by the APRM Panel with the technical support of the APRM Secretariat.

Since its inception in 2003, the APRM Panel has launched reviews in 13 countries<sup>3</sup> and fielded country review missions to five countries: Ghana (April 2005), Rwanda (April 2005), Kenya (October 2005), South Africa (July 2006) and Algeria (December 2006). So far, peer review at the level of heads of state have been conducted in three of these countries- Ghana (January 2006), Rwanda and Kenya (June 2006). The reports of Algeria and South Africa are nearing completion and will be presented at the APR Forum in July 2007.

Without doubt, the APRM is becoming a key driver of African renaissance and rebirth, and is a central piece of the NEPAD process for the socio-economic development of Africa. The APRM is a unique African instrument that is trail blazing and has a great potential as a tool to promote and to strengthen good governance in Africa. It is African in origin, African inspired and African owned. The experiences emerging out of the APRM implementation process are very encouraging indeed. The NEPAD and its Peer Review Mechanism have provided the cornerstones and plank for the realisation of good governance and sustainable human development, through an exercise that offered opportunity for all stakeholders in government, civil society and in the corporate sector to reflect on the problems that created fault lines, and which prevented the country from reaching higher human development goals.

The APRM is acting as a change agent, and as a catalyst for policy enhancement and for other desired changes. It is clear that the process has been empowering in ways that were not envisaged when it started. The interactive and broad inclusiveness of the process has spawned

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<sup>3</sup> These are: Algeria, Benin, Burkina Faso, Ghana, Kenya, Lesotho, Mauritius, Mozambique, Nigeria, Rwanda, South Africa, Tanzania and Uganda.

and strengthened a culture of political dialogue in the countries. The preparedness of African governments to engage the civil society, to deliberate on national challenges of governance, and to attempt to develop a framework for addressing them is profoundly significant and should be consolidated. Likewise the willingness to let outsiders examine national facts and findings and to let them express a view on how a country is governed is equally a new experience that should be encouraged.

The APRM provides real opportunities to strengthen the institutions and systems of governance in resource-rich countries that have acceded to it. It is making it possible for countries to benchmark good governance in Africa, on shared African and international norms and standards, as well as for citizens to participate in the evaluation of how they are governed. Through the APRM the African countries are able to learn from each other and to deepen African solidarity. Capacity is being developed and partnerships within the country and with external partners are being created, thus facilitating greater advocacy for the APRM and showcasing African innovative thinking in governance. Indeed the APRM has contributed to refocus world attention on Africa. Yet with the attention comes the expectation for the mechanism to deliver and to demonstrate that Africa is serious about tackling the governance challenges that stand as obstacles to its development.

As it is apparent in the emerging experiences in the countries implementing the APRM, along with the opportunities it presents, a number of challenges exist and need to be addressed. A number of partners and participating countries consider the process to be too long to complete, from the prolonged support missions to the finalisation of the Country Review Report. Naturally, the APRM trajectory is lengthy because of the extensive process of planning and the consultations amongst multiple stakeholders. While this is crucial for the credibility and success of the APRM, there is need to simplify and to improve upon the methodology and the duration.

More significantly, as an agent of change and not an end in itself, the APRM's biggest challenge is that countries are able to muster the resources and the capacity required to implement the recommendations, and the national programs of action emanating from it, and to monitor the progress of achievement. As the completed Ghana experience has shown, the end of the APRM should mark the beginning of efforts required to face up squarely to the post-APRM implementation challenges. To this end, partnership support both from within and from outside Africa is absolutely critical to ensure that the true test of the APRM is ultimately its ability to transform visions into visible improvements in the country's political

and economic governance, its poverty situation, its trade competitiveness, and indeed with regard of the MDG-related indicators.

### **7. How the APRM can assist in the Reconstruction Efforts in Resource-rich Conflict Countries.**

While the primary responsibility for reconstruction must lie with national actors, international intervention is often critical especially during the early stages of post-conflict transition. Not surprisingly, initial response is often characterized by military intervention for basic security, stability, and emergency services. The second, transformation phase, focuses on developing legitimation and sustainable indigenous capacity, often with special attention to jumpstarting the economy, establishing mechanisms for governance and participation, and securing a foundation of justice and reconciliation. The final phase, fostering sustainability, consolidates long-term recovery efforts, often leading to the withdrawal of all or most of the international military involvement. This phase also is laying the foundation for the prevention of conflict and the reemergence of violence.

These phases occur over a time span that varies considerably since the challenges of post-conflict economic recovery are unique to every country. Therefore, the priority, precedence, timing, appropriateness, and execution of tasks will vary from case to case and according to local conditions.

Several types of post-conflict, resource-rich countries have acceded to the APRM. At one extreme there are countries that have recently emerged from a period of prolonged violent conflict that was so overwhelming that the state essentially collapsed and it is gradually being rebuilt. The result of such violence is, typically, a seriously compromised economic, social and physical infrastructure. Countries such as Sierra Leone would seem to belong to this category. At the other extreme are countries such as Nigeria, and Sudan, where some part of the country is still experiencing conflict. In between these extremes there are countries like Angola and Mozambique, where conflict had affected large portions of the territory and physical decay is significant, but the state and its basic infrastructure have remained essentially intact.

However, there are certain commonalities that can be found to some degree across the different categories of post-conflict, resource-rich states that have acceded to the APRM. These include: economic regression, the deterioration of infrastructure, social decay, disintegration of governance mechanisms and processes, and institutional degradation. They face particular problems in the stabilization and reconstruction of their economies despite the

apparent promise that natural resource wealth holds. Unless deliberate efforts are made to avoid the "resource curse"; corruption, economic instability, conflict over the distribution of resource wealth and control of resource-rich areas, will undermine peace building efforts. Also from the perspective of fostering economic recovery and social reconstruction, these post-conflict, resource-rich countries are hampered by a lack of political credibility, policy expertise, and financial resources. Moreover, the very nature of these deficiencies implies that purely domestic solutions will most likely lie outside the grasp of most governments. These multiple challenges make economic reconstruction fundamentally different from "development as usual."

In such a context, the APRM can play a critical role in the post-conflict reconstruction tasks especially in fighting poverty, rebuilding the nation and introducing democratic reform. In spite of the fact that the primary responsibility for post conflict economic reconstruction rests with national governments and other local actors, the APRM could embed the process within a longer-term vision on reconstruction, linkages to other development processes, the selection of priority sectors, approaches to costing needs, integration of cross-cutting issues such as gender and environment, and the need to focus on institutional capacity building through the review process.

Clearly, there are a number of areas in which the APRM can be of immense assistance in economic recovery and deterring conflict recidivism by lowering the probability of a relapse into violence.

Given its unique mandate, the APRM is placed at a vantage position in assisting such countries in creating legitimate, effective political and administrative institutions and participatory processes, in particular, establishing a representative constitutional structure, strengthening public-sector management and administration, and ensuring the active and open participation of civil society in the formulation of the country's government and its policies.

The existence of democratic governance structures and institutions, an essential precondition for the APRM, is critically important, as it would safeguard the proper use of increased wealth generated by any expansion of economic and commercial activities. The adherence to democratic principles as well as the development of human capacity to administer the activity would ensure the benefit of economic growth for improving the standard of living of the vast majority of people.

Irrespective of the genesis of a conflict, an immediate post-conflict task is creating the space for, and facilitating national dialogue. The APRM is in a unique position to promote an inclusive political process that brings together all sectors of society with a view to achieve a

pact on governance that is conducive to a climate of sustainable peace and security. Through the self-assessment process, the APRM usually promotes broad national dialogues involving all relevant actors in the country.

Very often, the root causes of conflicts are poverty, disease and underdevelopment. In addition to the promotion of political stability and a climate of security, upon the conclusion of a conflict it is therefore essential for the international community to provide the resources to meet the most urgent needs of the population and to assist governments in the preparation of quick-impact projects and medium- and long-term development strategies and programmes. In this task, the APRM, through the execution of the National Programme of Action emanating from the Self-assessment process can make a valuable and far-reaching contribution in the modest goals of reconstruction, such as re-building physical infrastructure and attracting international investment.

Post-conflict environments are high-risky and volatile, and post-conflict governments typically lack the capacity required to establish pro-business climates in the immediate aftermath of the conflict. Thus, such governments find themselves in a particular bind during the period of early reconstruction: they have scant domestic resources and are hard-pressed to attract resources elsewhere. Externally, the credibility of the peace or, more accurately, the commitment of government forces and former adversaries to the implementation of the peace agreement is also important for attracting foreign investment and aid.

Providing technical assistance through the APRM process can be vital to consolidating peace and stability, avoiding policy reversals, and engaging the international community. Enhancing partnerships between nations and donor nations can play a vital role in the reconciliation and national peace building process which are essential for countries' long-term development.

While these circumstances present an opportunity for the APRM to assist African countries climbing out of the poverty-conflict trap, the organisation, however, needs to deepen its reconstruction capacity to be able to act proactively. It may consider developing a Conflict Prevention and Reconstruction (CPR) unit that provides special assistance and expertise to countries in the process of re-building their economies and polities.

## **8. Conclusions**

This treatise noted that nearly half of African countries have experienced some type of conflict since the end of the Cold War. This has bequeathed a legacy of enormous social, political and economic post-conflict challenges that must be addressed if post-conflict countries have to move forward. Yet, the development challenges for such areas are beyond

the capacity of any single entity to deal with. This implies the need for a broad partnership between all stakeholders in the post-conflict reconstruction process. It essentially calls for a partnership between the state, the private sector and the civil society, which must be predicated on identifying post-conflict development challenges, sorting out respective comparative advantages and creating synergies, and staking out mutual responsibilities that are geared exclusively to complementing government effort.

However, post-conflict reconstruction in Africa has hitherto been pursued in fragmented and ad-hoc bases, with the various stakeholders doing their own things. This approach remains uncoordinated and essentially duplicative of stakeholder efforts, denying any opportunities for strategic partnerships between government, private sector and civil society. Although evidenced in some post-conflict cases in the continent, such partnerships have been the exceptions rather than the norm. As a result, reconstruction efforts in post-conflict African countries have tended to be slow and unsustainable.

Post-conflict reconstruction is not a linear process. The imperative to place government, private sector, and civil society partnership at the centre of post-conflict reconstruction in Africa is the more relevant, given that by themselves stakeholders are weak. Over and above this, other stakeholders such as the private sector and the civil society can complement the weak capacity of a "conflict-weary" state through the unique comparative advantages that they wield. Together, they can combine their limited resources for maximum and effective application to the post-conflict situation.

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## ***CHAPTER 2***

### ***Africa after Conflict: Post-conflict Reconstruction and Dispute Settlement***

#### **Reconstructing Economic Governance in Côte d'Ivoire after Conflict: A Post Crisis Economic Policy Design for Côte d'Ivoire**

Bédia François Aka

#### **The Challenges of Economic Reconstruction in Post-conflict, Resource-rich African States: The Cases of the Democratic Republic of Congo and of Angola**

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# **Reconstructing Economic Governance in Côte d'Ivoire after Conflict: A Post Crisis Economic Policy Design for Côte d'Ivoire**

Bédia François Aka

## **Abstract**

*Côte d'Ivoire acceded to independence in 1960 and has a relative economic success and political stability up to 1999. But, since September 2002, the country has been experiencing a political crisis with an ongoing war. The northern part of the country is still in the hand of armed rebels controlling all economic transactions within the zone. The western part of the country has been subject to rebels' attacks with several victims. In the southern part governed by the state regular army insecurity has increased. Numerous attempts to restore peace from international partners (UN (United Nations), AU (African Union), ECOWAS (Economic Community of West African States)) are currently on the way to restore peace. The objective of this paper is to examine how economic governance should be restored and implemented after conflict in the above-mentioned zones and in the overall country as well in light of the country's experience.*

## **1. Introduction**

Institutions, formal and informal rules in society, are central to the way a country is governed (North, 1990). The formal rules are set by the state through laws and regulations. The informal rules come from the culture, history and experience of each society and are reflected in codes of conduct and belief systems. It is the interaction of the formal and informal rules that determines the institutions in society.

Economic governance involves the political, institutional, and legal environment within which an economy functions. Macroeconomic, microeconomic and fiscal policies, government economic agencies, regulatory policies and bodies, company law and legal institutions all form a part of an economy's economic governance.

Côte d'Ivoire's (CI) experience of economic governance has been exacerbated by the ongoing crisis situation that reflects the failure of the institutional system heritage of its history. The formal rules in this country emerged from the former French colonial system and the new rules installed by the new government after independence in 1960. On the other hand,

informal traditional rules are as much diversified as the number of ethnic groups living in the country (see Appendix 1).

The institutional system of the country is therefore a mix of these formal and informal rules exemplified by the recent land reform law<sup>1</sup> in 1998. This law transforms traditional rights on rural land in real modern property rights, installing an unavoidable conflict between traditional laws and modern law in land access. Among other causes, the agricultural land access was a real one at the origin of social crisis in Côte d'Ivoire.

The experience of Côte d'Ivoire in terms of economic governance (formal and informal rules) and the outcome of the system, which is the current crisis situation, are outlined in section 2. In section 3 we examine how economic governance could be restored after war including few policy recommendations. Finally, conclusions of the paper are given in section 4.

## **2. Côte d'Ivoire's Experience of Economic Governance**

### **2.1. Institutional Outcomes**

The informal rules of the country (culture) emerged from history and experience and are a mix of various ethnic groups' sensibilities (see appendix) and religions (mainly Christian, Muslim, and Animist).

The formal rules in Côte d'Ivoire emerged from the colonial system that leads to new rules installed by the new government after independence in 1960. Most of laws are following France's example. Moreover, these internal conditions are complicated by the influence of international actors, mainly France and neighbouring countries of Côte d'Ivoire (Burkina Faso, Mali, Niger, Liberia, and Ghana), the International Monetary Fund (IMF), World Bank (WB), the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU).

Following the first president (Félix Houphouët Boigny, who governed with relative authoritarianism but economic success from independence in 1960 to his death in 1993), the second one (Henry Konan Bédié, from 1993 to the 1999 coup) missed the opportunity to improve the former system that regulated ethnic group antagonism, and was shortly replaced by the third (Robert Guéi), following the 1999 military coup that marked the end of political stability in Côte d'Ivoire and brought political rivalry in the country.

Following the coup in 1999, the new military president (Robert Guéi) was urged by political parties and international partners to organise elections in October 2000. The actual president

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<sup>1</sup> In effect since 1998, land access is subject to the law "N° 98-750, of December 23, 1998" and "décret N° 99-594, of October, 13, 1999", fixing modalities of the law.

(Laurent Gbagbo, Front Populaire Ivoirien (FPI)) was the winner of these so-called controversial elections, as the main political parties Parti Démocratique de Côte d'Ivoire (PDCI) and Rassemblement des Républicains (RDR) didn't fully participate because of the exclusion of two major candidates (Allassane Dramane Ouattara of the RDR and Henry Konan Bédié of the PDCI).

In September 19<sup>th</sup>, 2002 a group of rebels organised a coup without success but gained control of the northern part of the country, and since then the country is still cut in two parts (see Conflict situation Map in Appendix 3) and the normalization of the situation appears to be an optimistic view of the current situation. The length of the conflict (4 years) is favouring the emergence of a parallel administration and army and thus a pseudo-state in the northern part of the country.

The end of the crisis was expected with the holding of October 2005 presidential elections; but initial phases of demobilization, disarmament and social reintegration of all belligerents (included in the Marcoussis Agreements in 2003, and reaffirmed by the Pretoria agreements in April 2005) should be completed before the displaced population (estimated at 1.5 million people) is reinstated, government services are restored, the economy is jumpstarted, and before reconstruction really begins. Unfortunately, the political developments were pessimistic concerning the disarmament and the elections of October 2005. The second Pretoria agreements had urged the protagonists to accelerate the move towards peace but unfortunately the last political pessimistic developments (see International Crisis Group (ICG), 2005) concerning the disarmament and elections of October 2005 were confirmed.

As the October 2005 elections could not take place due to the unsolved problem of disarmament, reunification and identification of populations, International partners agreed to keep the president (Laurent Gbagbo) in place for one more year along with the nomination of a 'consensual' new Prime Minister (Charles Konan Banny, the Governor of the WAEMU common regional Central Bank). Recently, following the information by GTI<sup>2</sup> ('Groupe de Travail International') concerning the dissolution of National Assembly, 10 civil persons were killed in 'Guiglo' (in the western part of the country, see Conflict Map) during violent manifestations against United Nations representatives from 16 to 19 January 2006.

October 2006 elections could not take place either and after the meeting of the United Nations in September 2006, ECOWAS and the African Union recently (in October 2006) agreed on another year of presidency for Laurent Gbagbo and Prime Ministry for Konan Banny (with

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<sup>2</sup> Composed of representatives of United Nations, African Union, European Union, International Organization of Francophonie, International Monetary Fund, World Bank, South Africa, Benin, Ghana, Guinea, Niger, France, United Kingdom and United States of America

reinforced power) in order to disarm and organize elections. These agreements were confirmed in 2006 (November, 1<sup>st</sup>) by United Nations' Resolution 1721, which was initiated by France.

Through the background of the new environment proposed by international partners, it seems that the political system is moving from a presidential form to a prime ministry form of government, without any formal constitutional reform.

Various observers have noticed the ambiguity of the role France is playing in this conflict arguing that indeed France's information agencies could not ignore the incoming of the coup since Côte d'Ivoire is an important country where France has a military base. Although its intervention has prevented losses of more human beings, further developments of the crisis have shown all embedded parties' negative perception of the role of France in the conflict.

## **2.2. Economic Performance**

Côte d'Ivoire's economy was characterised by a relatively long period of growth during 1960-1979. The growth process slowed down by the end of 1979 due to the decline in the prices of agricultural products. Since the early 1980s the macroeconomic situation worsened, and the emergence of persistent budget deficits constrained the government to reduce its investment efforts for development programmes that were previously initiated in several sectors such as health and education. As an example, while education represented 35.6% of the budget and 6.3% of the GDP in 1992, these shares dropped to 15.5% of the budget and to 4.1% of GDP in 1997. Public investment fell to 3.6% of GDP in 2003 (AfDB (African Development Bank) /OECD (Organisation of European Cooperation and Development) 2004, 2006). The economic policy choice during 1970-1979 was the diversification and modernisation of the agricultural sector in order to diversify the export revenue base (see Ministère du Plan, République de Côte d'Ivoire, 1971). Unfortunately, the end of the decade was marked by an economic crisis, the deterioration of the terms of trade, and by structural adjustment programs.

The decrease of government revenue combined with demographic growth (natural and migration) reduced the efficiency of the existing public infrastructure (in education and health, roads network).

The economic structure led to a growth in agricultural exports and revenues that were managed then by the CAISTAB<sup>3</sup> (see Awudu and Philippe 2002, Fosu 1990a, Fosu 1990b). The export revenues represent the building block of the financial system of Côte d'Ivoire

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<sup>3</sup> Caisse de Stabilisation et de Soutien du prix des produits agricoles (public marketing boards).

(Total exports remained nearly constant around 43% of GDP on average from 1999 to 2003). These revenues and the huge debt accumulated then by the government helped to undertake various investment programmes in all sectors of the economy. The liberalization policies urged by international financial institutions to mitigate the economic crisis led to the dismantlement of the CAISTAB into five entities<sup>4</sup>. In fact these new entities are rent seeking structures that absorb the revenue of the state in favour of few individuals' interest.

Overall in the growth process of Côte d'Ivoire the period spanning from 1960 to 1980 could be considered as the beginning of growth followed by the economic crisis and adjustment period from 1980 to 1990. During the 1990-1999 periods the economic crisis was combined with social crisis and increase in poverty. This economic and social crisis has worsened and culminated in the political crisis with the ongoing war since 19 September 2002.

### 2.3. Pre-conflict Social Conditions

The decline of economic efficiency impacted social conditions and thus the households' livelihood. Segmenting households by representative socio-economic groups (see Table 1) and examining income distribution using the Côte d'Ivoire 1998 survey data (ENV98), the Gini index indicates a high inequality between households ( $G=0.60$ ) for the whole population. The results by subgroups show that inequality is high in the unemployed and inactive group, followed by coffee and cocoa farmers. A high inequality also exists in the group of public employees and private employees (where the Gini index is higher than the Gini of the whole population).

**Table 1: Atkinson Indices, A(e) and Gini**

Socioeconomic Group	A(0.5)	A(1)	A(2)	Gini
1 Coffee-cocoa farmers	0.4357	0.5742	0.7530	0.6509
2 Other export crops farmers	0.1906	0.3553	0.6055	0.4804
3 Starch farmers	0.1721	0.3435	0.6285	0.4502
4 Other food crops framers	0.1683	0.3352	0.6178	0.4398
5 Public employee	0.3789	0.5273	0.6389	0.6454
6 Private employee (formal & non formal)	0.3229	0.5356	0.7344	0.6259
7 Self employed (formal & non formal)	0.2897	0.4934	0.7037	0.5964
8 Agricultural workers	0.2462	0.4671	0.7427	0.5421
9 Unemployed & Non active	0.4415	0.6092	0.7686	0.6901
<b>All observations</b>				<b>0.6038</b>

Note: where  $e > 0$  is the inequality aversion parameter; see Annex on indices

Source: Computed by author (Aka, Bédia F., 2006)

<sup>4</sup> These entities include the ARCC (Autorité de Régulation de Café et Cacao), FRC (Fonds de Régulation de Café et Cacao), BCC (Bourse du Café et du Cacao), FGCCC (Fonds de Garantie des Coopératives Café – Cacao), and FDPCC (Fonds de Développement et de Promotion des Activités des Producteurs de Café et de Cacao).

We observe higher intra group inequalities than inter group inequality for all households (see Table 2).

**Table 2: Intra- and Inter-group Inequality (Generalized Entropy; Atkinson)**

		Generalized Entropy				Atkinson			
		GE(-1)	GE(0)	GE(1)	GE(2)	A(0.5)	A(1)	A(2)	
Within-group,	GE_W(a)	1.234	0.683	1.040	42.557	A_W(e)	0.316	0.498	0.712
Between-group,	GE_B(a)	0.019	0.018	0.017	0.017	A_B(e)	0.008	0.012	0.009
<b>All observations</b>		<b>1.254</b>	<b>0.702</b>	<b>1.058</b>	<b>42.575</b>		<b>0.321</b>	<b>0.504</b>	<b>0.715</b>

Notes: where a = income difference sensitivity parameter (Generalized Entropy); where e > 0 is the inequality aversion parameter (Atkinson). See Annex on indices.

Source: Computed by author (Aka, Bédia F., 2006)

Analysing regional disparities we find that for the whole country (see Table 3), the Gini index indicates a high inequality among regions (G=0.60). The results by sub-region show that inequality is high in urban areas, Abidjan followed by other cities (where the Gini index is higher than the Gini of the whole population).

We observe higher intra region inequalities than inter region inequality for all observation (see Table 4) invalidating the hypothesis that inter-regional disparities could have been a cause of the current crisis.

**Table 3: Atkinson Indices, A(e) and Gini**

Region	A(0.5)	A(1)	A(2)	Gini
1 Abidjan	0.4971	0.6416	0.7527	0.7311
2 Other cities	0.4207	0.6071	0.7815	0.6808
3 Forest East	0.2174	0.4054	0.6644	0.5129
4 Forest West	0.2619	0.4732	0.7133	0.5661
5 Savannah	0.1825	0.3476	0.6147	0.4667
<b>All observations</b>				<b>0.6038</b>

Note: where e > 0 is the inequality aversion parameter. See Annex on indices.

Source: Computed by author (From Côte d'Ivoire 1998 household survey)

**Table 4: Intra and Inter-region Inequality (Generalized Entropy; Atkinson)**

		Generalized Entropy				Atkinson			
		GE(-1)	GE(0)	GE(1)	GE(2)	A(0.5)	A(1)	A(2)	
Within-region,	GE_W(a)	1.238	0.687	1.043	42.560	A_W(e)	0.320	0.502	0.713
Between-region,	GE_B(a)	0.015	0.015	0.014	0.014	A_B(e)	0.002	0.004	0.004
<b>All observations</b>		<b>1.254</b>	<b>0.702</b>	<b>1.058</b>	<b>42.585</b>		<b>0.321</b>	<b>0.504</b>	<b>0.715</b>

Notes: where a = income difference sensitivity parameter (Generalized Entropy); where e > 0 is the inequality aversion parameter (Atkinson). See Annex on indices.

Source: Computed by author (From Côte d'Ivoire 1998 household survey)



## 2.4. The Failure: Economic, Social and Institutional Crisis

Economic governance in CI has also been influenced by international factors through partners in development. In effect faced with a persistent decline in the international prices of agricultural products and thus with the decline of terms of trade<sup>5</sup> effects, the government was engaged in Structural Adjustment Programmes (SAPs) that lasted throughout the 1980s and were financed by the World Bank (WB) and the International Monetary Fund (IMF), in an attempt to restore macroeconomic equilibrium, improve the efficiency of the economy and foster growth (see Azam and Morisson, 1994). The terms of trade, which were positive from 1960 to 1970, became negative in 1972 and 1975 and definitively negative from 1980 to now (World Development Indicators (WDI) WB, 1999). These programmes failed to restore the health of the economy and instead worsened the economic situation of the country.

In the beginning of the 1990s, the international financial institutions and their partners in development cooperation urged the privatisation of several public enterprises. In addition, they suggested the liberalisation of the agricultural sector; mainly the sub-sectors cocoa and coffee, which represented the heart of the country's finances (see Cogneau and Mesplé-Somps, 2003, Conte, 2004). In the meantime the Franc CFA (Communauté Financière Africaine) was devaluated by 100% in 1994 January the 12<sup>th</sup> 6, followed by the suppression of the CAISTAB in January 1999, just 4 months before the first Coup.

The economic decline (a -1.23% GDP decrease in average from 1999 to 2003) combined with an average demographic growth of 3.3% per annum between 1988 and 1998 (last census) as well as with negative consequences of structural adjustment policies led to a sharp decrease in government revenues. By the same token, income per capita and personal consumption plummeted and poverty increased sharply during the period. Consumption (total, private and public) decreased from 1979 to 1993 and increased in 1994 only by the effects of the 1993 devaluation of the CFA Franc. According to the National Statistical Institute (INS) survey, poverty in CI increased from 10% in 1985 to 32.3% in 1993 and to 33.6% in 1998. The Human Development Index (HDI) for CI has declined: country ranked 154<sup>th</sup> out of 174 countries in 1998 versus 163<sup>rd</sup> out of 177 countries in 2004, and 164<sup>th</sup> out of 177 countries in 2006.

For various socio economic groups in the country, Table 5 presents the poverty incidence. It is found, that with  $P_o=46.06\%$ , public employees are the group most likely to be in poverty, followed by coffee and cocoa farmers ( $P_o=33.96$ ), and private employees ( $P_o=32.79$ ). Among

<sup>5</sup> Define as the capacity to import less export of goods and services in constant prices.

<sup>6</sup> The rate of devaluation is computed as follows:  $(CFAF100 - CFAF50)/CFAF50=1*100=100\%$ . Note that the CFA Franc is linked to Euro through the French Franc with parity 1 Euro= 655.957 FCFA, as 1Euro= 6.559 French Franc.

the agricultural group, food crop farmers (starch and other food crop farmers) are less affected by poverty than others. For the whole population, we notice that 30.90% of households are consigned to poverty in 1998.

**Table 5: Poverty Indexes**

<b>Sub-Population</b>	<b>P<sub>0</sub></b>	<b>Contribution</b>	<b>P<sub>1</sub></b>	<b>Contribution</b>	<b>P<sub>2</sub></b>	<b>Contrib.</b>
1 Coffee-cocoa farmers	33.96	21.87	15.94	25.58	9.17	28.06
2 Other export crops farmers	30.09	5.34	15.12	6.68	9.09	7.66
3 Starch farmers	25.13	7.94	11.84	9.32	6.97	10.45
4 Other food crops framers	22.46	6.42	10.91	7.77	6.42	8.72
5 Public employee	46.06	6.54	13.70	4.85	5.35	3.61
6 Private employee (formal & non formal)	32.79	16.87	11.06	14.19	4.96	12.12
7 Self employed (formal & non formal)	30.97	19.69	9.98	15.81	4.57	13.81
8 Agricultural workers	27.76	7.75	13.23	9.21	7.29	9.67
9 Unemployed & Non active	31.41	7.54	10.95	6.55	5.13	5.85
<b>All observations</b>	<b>30.90</b>		<b>12.40</b>		<b>6.50</b>	

Note: P<sub>0</sub> indicates poverty incidence, P<sub>1</sub> indicates poverty gap and P<sub>2</sub> indicates extreme poverty; Poverty is measured per adult equivalent using the weights of the survey. Constant basic needs approach evaluated the Poverty line at CFAF 288,816.58 per year (US\$1.21 per day). See Annex on Methodology.

Source: Computed by author (Aka, Bédia F., 2006)

The result for public employees is a new phenomenon but consistent with Côte d'Ivoire's economic environment, which copes with declining public expenditure by reducing wages in the public sector. For coffee and cocoa farmers the poverty situation contrasts with their reputation in the economy of this country. This can be due to the drop in international prices of agricultural export products, making this group a vulnerable one as indicated by the highest P<sub>2</sub>=9,17 (severity of poverty). Coffee and cocoa farmers, self-employed and private employees are the groups contributing the most in global poverty.

## **2.5. From the Lawlessness to the Absence of Law Period in Côte d'Ivoire**

With the drop in government revenues the institutions of the state were eroded. This is resulting into a powerless state without authority. One example is the education sector. Since the 1990s intolerance and next violence were installed as a rule of regulation in the only one new students organisation (Fédération Estudiantine de Côte d'Ivoire (FESCI)) that replaced the former one (Mouvement des Élèves et Étudiants de Côte d'Ivoire (MEECI)) and the successive governments up to now have never been able to punish those responsible of violent actions, giving room for ongoing-armed conflict and a pessimistic view on potential actors and how the country will be ruled in the future.

The crisis caused several problems all over the country, mostly the absence of protection of populations and their properties, the dismantlement of education and health structure

efficiency. More than 1.5 million people were displaced towards the Southern part of the country ruled by regular government and several schools and health centres have been closed in the Northern part of the country in the hands of rebels as well as in the Western zone occupied by armed groups. How good conditions to restore growth could be created is presented in the next section.

### **3. Restoring Economic Governance in Côte d'Ivoire: How and Where should we Begin?**

Although economic governance could be restored and strengthened in Côte d'Ivoire across a broad spectrum of issues in order to bring the country on the way of growth and to promote the welfare of populations, we point out here few elements that keep in mind the failed system. If the economic questions that contributed to conflict are not deeply solved, other crisis situations could emerge rapidly. The basic hypothesis of these reforms is peace that requires three main conditions: the disarmament of rebels, the country's reunification and presidential elections (in 2007).

Modifying economic institutions in order to improve the performance of the economy and regulating the whole system by providing public goods requires an empowered state that could be reached through domestic and international resources mobilisation.

On the resources side, although international partners' financial contributions (in peace and development) are necessary and welcome, in the case of Côte d'Ivoire few financial internal based building blocks of all these policy reforms could be identified and recommended as following:

- The first one should be the reorganisation of former CAISTAB's revenue. As stated earlier the new management entities<sup>7</sup> created in place of the former CAISTAB in the export sector are rent seeking structures that absorb the revenue of the state for few individuals' interest without any nationwide investment programme. The functioning of these structures reflects the failure of market regulation justifying thus public intervention in the sector.
- The second one could be based on the oil and gas revenue that is not clearly integrated in the budget of the state as government income (see Table 6), and thus its contribution to social welfare has not been apparent so far.

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<sup>7</sup> CAISTAB was dismantled into five entities including the ARCC (Autorité de Régulation de Café et Cacao), FRC (Fonds de Régulation de Café et Cacao), BCC (Bourse du Café et du Cacao), FGCC (Fonds de Garantie des Coopératives Café – Cacao), and FDPCC (Fonds de Développement et de Promotion des Activités des Producteurs de Café et de Cacao).

- Finally, the setting up of direct and indirect tax based policies. An internal fiscal policy is recommended by modifying the tax structure in favour of private sector job creation and pro-poor consumption.

**Table 6: Public Finances of Côte d'Ivoire (Billions of FCFA)**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Total Receipts and Gifts</b>	1138.1	1272.5	1372.2	1439.1	1336.5	1270.5	1358	1473	1577	1636
- Fiscal receipts	897.3	1040.7	1112.9	1142.1	1149.1	1077.5	1167	1233	1301	1395
- Direct taxes	202.1	229.5	303.6	327.7	322.3	334.4	326	341	373	406
- Indirect taxes	695.2	811.2	809.3	814.4	826.8	743.1	841	892	928	989
. Good & services petrol excluded		..	227.3	240	241.1	258.3	289	310	333	356
. Imports petrol included		..	408.8	416.4	408.9	321.4	552	582	595	633
. Exports			173.2	158	176.8	163.4	..	..	..	..
- Non-fiscal Receipts	205.8	191.3	215.2	246.5	122.5	159.5	168	200	231	191
- Surplus CSSPPA	135.9	70.1	84	131.6	1	8.5	6	7	8	9
- Contrib. Social Security	52.2	74.3	83.1	79.2	83.7	102.7	114	115	123	132
- Other non-fiscal receipts.	17.7	46.9	48.1	35.7	37.8	48.3	29.9	38	40	50
- Telecom licence fee.							18.1	40	60	0
- Gifts	35	40.5	44.1	50.5	64.9	33.5	23	40	45	50

Source IMF, 2006

The remobilized resources can be used on the expenditure side in the following overlapping policy reforms.

### 3.1. Security and Judicial Reform: Fighting Preferential Schemes

Corruption and preferential schemes that were not so perceptible in early years of rapid growth have grown up in the country. As a specific example of the phenomenon are preferential schemes in education and formation that allow to have access to governmental function like police, custom, and other jobs in public administration.

A corollary of these preferential selection schemes is the discriminatory and rent seeking behaviour and corruption when public agents execute their functions. The phenomenon could be exacerbated as following disarmament former armed groups could morph into criminal groups and create disorder in governance reconstruction. There is thus a need to create new conditions for security. The judiciary system must therefore be strengthened for more objectivity, rapidity and doubtlessness in crime punishment all that suppose alleviation of preferential schemes and corruption.

### **3.2. Fiscal Reforms**

Tax reform is a key issue because of its impacts on household and individual income distribution in the country. Most of rebels' elements come from the non-educated and jobless people. Adapting taxes to reduce labor cost could be essential for private sector job creation in the country and reintegrate these people into civil life.

Moreover, tax reform is a mean to reduce increasing poverty and inequality in the country. In effect, reducing taxes on goods that are consumed by low-income households could alleviate poverty for these groups and reduce inequality in the country.

On the other hand, tax policy could help to attract foreign industrial investment in raw material processing and thus create domestic jobs for the younger generation graduating from the school system.

### **3.3. Education, Health and Pension System**

The education and health sector deteriorated before the crisis since the 1997s. More important, a large part of population is excluded from the modern health sector because of the cost and access conditions to health structures, as no social insurance exist for these populations.

The characterization of the population (see Table 7) from household survey (ENV98 (Enquête sur les niveaux de vie 1998), INS 1998) is showing that the most important household group is the self-employed (formal and non formal), who comprises 20.14% of the population, followed by private employees (20.10%) and coffee and cocoa farmers (18.43%). The smallest groups are other export crop farmers and public employees with only 4.83% and 5.14% of households, respectively. These proportions characterize quite well the socioeconomic structure of Côte d'Ivoire, with a large part of the agricultural (coffee and cocoa farmers) households (37.90%), self-employed and private employees.

In terms of population share, coffee and cocoa farmers are the most important group (19.90%), but this group receives only 20.20% of total income, while the self-employed with 19.65% of the population get 20.31% of total income. Public employees are the smallest group (4.39%) and receive the smallest part of income (2.97%).

**Table 7: Demographic Characteristics**

Socioeconomic Group	Households		Percentage below the poverty line			Population share (%)	Income share (%)
	Frequ.	Perc.	Frequ.	Perc.	Cum		
Coffee-cocoa farmers	774	18.43	279	21.53	21.53	19.90	20.20
Other export crops farmers	203	4.83	65	5.02	26.54	5.48	3.38
Starch farmers	341	8.12	90	6.94	33.49	9.76	7.68
Other food crops framers	274	6.52	72	5.56	39.04	8.83	7.40
Public employee	216	5.14	77	5.94	44.98	4.39	2.97
Private employee (formal & non formal)	844	20.10	251	19.37	64.35	15.90	17.42
Self employed (formal & non formal)	846	20.14	252	19.44	83.80	19.65	20.31
Agricultural workers	350	8.33	92	7.10	90.90	8.63	10.89
Unemployed & non active	352	8.38	118	9.10	100	7.42	9.70
<b>TOTAL</b>	<b>4200</b>	<b>100</b>	<b>1296</b>	<b>100</b>			

Source: INS, 1998

In such an economic system exposed in the first part of the paper, where the revenue of the country is mainly provided by agricultural exports, those contributing more in the income generation should have more care from the state, but the system functions differently.

A pension system does exist for civil servants (public employee) the CGRAE's (Caisse Générale de Retraites des Agents de l'Etat) and private employee both representing only 25.24% of households (20.29% of population share), but does not exist for export agricultural households (23.26% of households and 25.38% of population share) whose contribution is essential for all other sectors of the economy (see Table 7).

It appears urgent to create a social insurance based on specific taxes or on an evaluation of feasibility for other export agricultural households and next extend the system to all individuals in the country. This policy could reduce morbidity, huge intergenerational transfer and finally poverty and restore social equity.

### 3.4. Land Reform

An attempt of land reform took place in 1998 with unavoidable conflicts among populations because of the mix between traditional rules and modern laws in land access.

It is recommended to develop legal and financial procedures to value farm assets as collateral so as to facilitate access to credit on local financial markets that could enforce land access reform. This requires the existence of marketable land/property rights well crafted for this purpose, and a reliable legal system to enforce it without erasing all traditional land property rules.

### 3.5. Sectoral Infrastructure Investment Programme

The resources generated internally and those from foreign aid should also be used in medium and longer horizon for investment to re-equilibrate the development of the country across region (mainly those most affected by the conflict), and importantly between Abidjan and other towns in the following sectors:

- **Water and Electricity Distribution:** the country is exporter of electricity in neighbouring countries while a large part of the country is not equipped in clean water distribution and electricity.
- **Transport:** roads, airports need to be rehabilitated and railway extended to eastern and western regions of the country.
- **Environment:** recent events on toxic waste in Abidjan reveal the need for a clear environmental policy inside Abidjan and across the whole country to prevent diseases and desertification from the North.
- **Industrial Transformation of Raw Material:** industrial processing of cocoa and coffee is a mean of increasing domestic value added, and also create jobs in the industrial sector.

### 4. Conclusions and Policy Recommendations

This paper has examined how economic governance should be restored and implemented after conflict in Côte d'Ivoire. From a brief presentation of the country's experience that induces the current crisis situation, we examine how economic governance could be implemented. We present policy recommendations based on few basic matters reforms on the revenue mobilisation side in order to empower the state as well as on the expenditure side for an optimal allocation scheme that could be helpful for the economic, social and thus political stability of the country.

The basic hypothesis of these reforms is peace that requires three major conditions highlighted by (UN, AU and ECOWAS), conditions again reinforced by the recent (March, 2007) peace agreement in Ouagadougou (Burkina Faso) between rebels and the government: the disarmament of rebels, the country's reunification and presidential elections. The policy recommendations cover few subjects that could be achieved through the modification of economic institutions in order to improve the performance of the economy and regulate the whole system by providing public goods, all which requires an empowered state that could be achieved through domestic and international resources mobilisation.

On the resources mobilisation side, although international partners' financial contributions (in peace and development) are necessary and welcome, in the case of Côte d'Ivoire few financial internal based building blocks of all policy reforms could be identified and recommended as following:

- The first one should be the reorganisation of former CAISTAB's revenue. In effect the new management entities created in place of the former CAISTAB in the export sector are rent seeking structures that absorb the revenue of the state for few individuals' interest without any nationwide investment programme. The functioning of these structures reflects the failure of market regulation scheme justifying thus public intervention in the sector.
- The second one could be based on the oil and gas revenue that is not clearly integrated in the budget of the state, and thus its contribution to social welfare has not been apparent so far.
- Finally the setting up of an internal fiscal policy is recommended by modifying the tax structure to attract foreign industrial investment in raw material processing in favour of private sector job creation and pro-poor consumption.
- The remobilised resources could be used on the expenditure side in the following overlapping policy reforms that implies the modification of economic institutions through:
  - The creation of new conditions for security by means of introducing a uniform recruitment procedure based on merits to have access to the public administration (police, custom), and strengthening the judiciary system for more objectivity, rapidity and doubtlessness in crime punishment all that supposes alleviation of preferential schemes and corruption. For that purpose, an anticorruption commission could be created.
  - The introduction of a social insurance for agricultural households and enlargement the health and pension system to all individuals in the country in order to reduce morbidity, huge intergenerational transfer and finally poverty and restore social equity.
  - The development of legal and financial procedures to value farm assets as collateral so as to facilitate access to credit on local financial markets that could enforce land access reform. This requires the existence of well crafted marketable land/property rights, and a reliable legal system to enforce it but without erasing all traditional land property rules.



- Investment programme to re-equilibrate the development of the country across region (mainly those most affected by the conflict), and between Abidjan and other towns in the following sectors:
  - Water and Electricity Distribution: the country is exporter of electricity in neighbouring countries while a large part of the country is not equipped in clean water distribution and electricity.
  - Transport: roads, airports need to be rehabilitated and railway extended to Eastern and western region of the country.
  - Environment: recent ongoing events on toxic waste in Abidjan reveal the need for a clear environmental policy inside Abidjan and across the whole country to prevent diseases and desertification from the North.
  - Industrial Transformation of raw Material: industrial processing of cocoa and coffee is a mean of increasing domestic value added, and also create job in the industrial sector.

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## Appendixes

### Appendix 1: Example of Ethnic Groups and Few Languages

Ethnic Groups	Languages
<i>Akan</i>	<i>Abron</i> <i>Baoulé</i> <i>Agni</i> <i>Abé</i> <i>Atié</i> <i>Abouré</i> <i>Apollonien</i> <i>Kodé</i> <i>Adioukrou</i> <i>Ebrié</i> <i>Alladjan</i>
<i>Krou</i>	<i>Bakoué</i> <i>Godié</i> <i>Dida</i> <i>Gouro</i> <i>Bété</i> <i>Yacouba</i> <i>Wobé</i> <i>Guéré</i>
<i>Mandé</i>	<i>Malinké</i> <i>Dioula</i> <i>Bambara</i> <i>Foula</i>
<i>Voltaïque</i>	<i>Lobi</i> <i>Koulango</i> <i>Sénoufo</i> <i>Tagouana</i>

Source: RGPH98 (Recensement general de la population et de l'habitat, 1998), INS (Institut National de la Statistique)

## Appendix 2 : Administrative Map



Source: Division Géographique du Ministère des Affaires Étrangères, Geographical Service, French Ministry of Foreign Affairs. Available online at <http://www.izf.net/izf/documentation/cartes/Pays/supercartes/cotedivoire.htm>

### Appendix 3: Conflict Situation Map



Source: Department of Public Information, Cartographic Section, United Nations, January 2004

## Appendix 4: Inequality and Poverty Indices

### Atkinson Indices

The Atkinson inequality index is an alternative to the well known Gini index. Define the equally-distributed-equivalent income  $Y_e = \left( \sum_{i=1}^n f(y_i) y_i^{1-\varepsilon} \right)^{1/(1-\varepsilon)}$ ;  $\varepsilon > 0$ , the Where  $y_e$  is the uniform income level that, if received by all households would generate the same social welfare as the actual income distribution. The parameter  $\varepsilon$  represents the elasticity of the marginal utility of income. Therefore, it is a measure of aversion to inequality. When  $\varepsilon = 0$ , the utility function takes a linear form, in which case, the process of public choice (i.e. the welfare choices of society) does not take inequality into consideration. When  $\varepsilon$  tends to infinity, social welfare depends only on the welfare of the poorest members of society. One would be ready to sacrifice nearly all available income to achieve equality. Atkinson indices are defined by  $A(\varepsilon) = 1 - y_e / \mu$  where  $\mu$  is the actual mean income. The more equal the income distribution is, the closer  $y_e$  will be to  $\mu$ , and the lower the value of the Atkinson Index. For any income distribution, the value of  $A(\varepsilon)$  lies between 0 and 1.

The Atkinson indices are decomposable (but not additively):

$$A(\varepsilon) = A_W(\varepsilon) + A_B(\varepsilon) - [A_W(\varepsilon) A_B(\varepsilon)],$$

with  $A_W(\varepsilon) = 1 - \left[ \sum_{k=1}^{k=K} v_k y_{ek} / \mu \right]$  the within group inequality and  $A_B(\varepsilon) = 1 - y_e / \left[ \sum_{k=1}^{k=K} v_k y_{ek} / \mu \right]$  the

between group inequality indices.

### Generalized Entropy Indices

The Generalized Entropy inequality indices are also an alternative to the usual Gini index. The Generalized Entropy class of inequality indices is given by  $GE(a) = \frac{1}{a(a-1)} \sum_{i=1}^n f(y_i / \mu)^a - 1$ ;  $a = 0, a \approx 1$ . Where  $\mu$  is the mean income.

Each  $GE(a)$  index can be additively decomposed as  $GE(a) = GE_W(a) + GE_B(a)$ , where  $GE_W(a)$  is Within-group Inequality and  $GE_B(a)$  is Between-Group Inequality.

$GE_W(a) = \sum_{k=1}^{k=K} [v_k^{(1-a)}] [S_k^a] GE_k(a)$ , where  $v_k = N_k / N$  is the number of persons in subgroup  $k$

divided by the total number of persons (subgroup population share), and  $S_k$  is the share of total income held by  $k$ 's members (subgroup income share).  $GE_k(a)$ , inequality for subgroup  $k$ , is calculated as if the subgroup were a separate population, and  $GE_B(a)$  is derived assuming every person within a given subgroup  $k$  received  $k$ 's mean income,  $\mu_k$ .

### Contribution

The poverty (Foster-Greer-Thorbecke: FGT) indexes are decomposable and thus help in looking at the contributions of different groups of households to overall poverty level. The contribution of each socioeconomic group to overall poverty is given by  $C_j = K_j P_{x_j} / P_\alpha$ , where  $P_{x_j}$  is the poverty index for the group  $j$  and  $K_j$  is the proportion of the population in the group  $j$ .

# **The Challenges of Economic Reconstruction in Post-conflict, Resource-rich African States: The Cases of the Democratic Republic of Congo and of Angola**

Afeikhena T. Jerome and Dipo T. Busari

## **Abstract**

*Re-creating a viable economy after prolonged violent conflict remains one of the most daunting challenges confronting development practitioners. This chapter examines the challenges and lessons of experience on economic reconstruction in the Democratic Republic of Congo (DRC) and Angola, two resource-rich African countries that have experienced varying degrees of conflict.*

*A major finding of the study is that the task of economic reconstruction in both the DRC and in Angola is quite enormous. In the DRC sharp polarization and ethnic confrontations that propelled the conflict in the first place still remain as a legacy of the war. In Angola, relative peace has been restored, but the consequences of the protracted war continue to be felt in the country, even though the economy of the country is one of the fastest growing in the world.*

*While both countries have made some progress, the absence of strong political will to take on the task of economic reconstruction is slowing down the pace of reconstruction in both countries. The international community can at best continue to provide financial and technical assistance. The destiny of both countries will depend, largely, on how the processes of reconciliation and reconstruction are managed by the political elite.*

## **1. Issues**

The literature on the ‘resource curse’ has established important causal links between resource abundance, economic decline and violent conflict. Resource abundance seems to provide both finance and motive for armed conflict (‘greed and grievance’), and to generate adverse effects on the economy and the institutions through corruption and authoritarianism. Empirically, both quantitative and country case studies have established evidence that resource-dependent and resource-abundant countries are indeed more likely to lapse into domestic violence (Collier and Hoeffler, 2001; de Soysa, 2002). Oil-dependent countries, and in particular those in Africa, are among the most economically troubled, the most authoritarian, and the most conflict-ridden states in the world today<sup>1</sup>.

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<sup>1</sup> This point is well elaborated in Karl and Gary 2003, page 18.

However, the relationship between abundance in natural resources and violence is much more complex than previously assumed. In recent years, the paradigm has come 'under distress'. It is widely acknowledged that the positive knowledge on the relationship between natural resources and violence is confined to an adverse effect of oil and of 'lootable' resources (Ross, 2004). Whether or not the resource curse strikes, and the manner in which it does so, will depend on a complex set of context-specific conditions in a given country<sup>2</sup>. The debate is already moving towards practical recommendations in terms of 'actions and options' for conflict prevention and resolution.

Africa, undoubtedly, has had more than its fair share of resource conflicts. The continent is home to many of the intractable and protracted contemporary resource conflicts, and countries as diverse as the Democratic Republic of Congo, Sierra Leone, Liberia, and Angola are slowly emerging from highly fragmented conflicts that were fuelled by years of contest over mineral resources. Following the end of an armed conflict, parties face the difficult task of re-establishing and developing the political, social, and economic structures within society. Indeed, states emerging from armed conflict face the difficult challenge of transitioning from "war-weakened economies and highly polarized political and social relations to rejuvenated economies capable of providing the basic needs of all citizens and political groups, that offer all social groups meaningful participation" in decision-making.

An essential component of peace building is the reconstruction of the economy. The development of physical and financial infrastructure, as well as investment in human capital and natural resources, are crucial to post-war economic reconstruction to address the enormous economic and social deficits or to re-establish the basic underpinnings of the economy. While there are various dimensions to post-conflict reconstruction, post-conflict economic recovery requires the improvement of economic policies and institution building in a variety of areas. These include establishing the rule of law, stimulating employment generation, restoring the functionality of the market, introducing appropriate social safety nets, providing legal and regulatory environment to stimulate economic activities, revamping the payment system and infrastructure including transport, telecommunication, and energy which are most likely to have been destroyed. Experience and lessons from post-conflict countries indicate that post-conflict economic reconstruction presents many complex and daunting challenges. However, the experience and the sequencing of reconstruction has varied from country to country.

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<sup>2</sup> For more on the debate, see Collier et al. 2003, Ross 2003, and Humphreys 2005.



This chapter examines the challenges and lessons of experience on economic reconstruction from the Democratic Republic of Congo and from Angola, two resource-rich countries, which like most of the African countries, have experienced varying degrees of conflict.

## **2. Perspectives on Post-conflict Economic Reconstruction**

Post-conflict policy emerged only recently, specifically since the end of the Cold War, as an issue of international concern. Since then, very substantial international resources have been devoted to post-conflict situations. Western governments, international development and lending institutions, the United Nations and non-governmental organizations, often under intense media scrutiny, are increasingly compelled to help countries torn asunder by war to move from dependence on humanitarian relief to a reconstruction process and ultimately into a long-term development phase.

However, triggering sustainable development in the wake of war itself obviously poses a daunting range of intellectual, political, economic, social and cultural challenges. Violent conflict inflicts appalling visible and invisible damage on developing societies. Vital economic infrastructure is ruined, state institutions often collapse, mistrust of the state soars, schooling is disrupted, refugees flood into cities, fear replaces confidence, skilled workers flee, and war profiteers with a vested interest in conflict lurk in the shadows prepared to resurrect the very tensions that allowed them to flourish economically and politically at the expense of the society as a whole (NATO Parliamentary Assembly, 2004:1).

Not surprisingly, the literature on post conflict reconstruction is also only just evolving. An entire new body of academic literature on the subject has come to the fore, and this work reflects both the importance of the topic and the daunting and controversial intellectual and policy challenges it poses. Extant theory and a wealth of evidence have identified what could be regarded as the five pillars of post-conflict reconstruction. These are: security or the establishment of a safe and secure environment through the establishment of legitimate and stable security institutions; justice and reconciliation which incorporates an impartial and accountable legal system, a means to deal with past and current crimes, and a humane prison system; a first-order priority is rebuilding infrastructure which is often the target for destruction during war. Such reconstruction requires an infusion of new investment from domestic and foreign investors and aid-granting agencies; social and economic well-being achieved through the provision of emergency relief, restoration of basic services, laying the foundation for a viable economy and sustainable development; and finally governance and participation, by building viable constitutional structures, capacity building in state

institutions and public administration and the nurturing of an articulated civil society capable of participating in governance and relieving the state of some of its myriad burdens.

Only recently has an academic literature based on theory and quantitative analysis of post-conflict economic reconstruction evolved. It is however still in infancy. A growing consensus is that the state of the economy plays a special role in rebuilding societies. Civil conflicts often arise from a lack of economic development, and the resultant destruction subsequently impedes post-conflict economic performance, giving rise to further pessimism. Collier and his World Bank team (2003) term this grim cycle the “poverty-conflict trap.” In this trap, a country’s first entry into civil conflict not only reverses development during the conflict, but also retards economic growth afterwards. This failure of economic recovery increases the risk that the country will slip back into civil conflict, and the cycle begins again. Engaging in civil conflict not only engenders a temporary economic setback, therefore, but also risks the establishment of a permanent cycle of violence and poverty. However, as Collier and his co-authors emphasize, the most sensible approach to reducing the risk of recidivism remains reviving post conflict economies (Collier et al, 2003: 152-153).

Kang and Meernik (2004) identify two challenges facing economic policymakers at the conclusion of a civil conflict. First, policymakers must engineer a rapid economic recovery in the immediate post-conflict period. Second, they must transform this short-term recovery into stable long-term economic growth.

Addison (2002) and Michailoff / Kosner / Devictor (2002) have suggested that the framework for stabilization, recovery and development should be anchored to the following three issues:

- (a) Rebuilding the state and its key institutions;
- (b) Jump-starting the economy; and
- (c) Addressing urgent needs of reconstructing communities.

To perform the above tasks, it is important to restore the states’ capacity for macroeconomic management and fiscal operations. As argued by Rogers (2006), post-conflict countries require assistance in many critical areas, including project and programme design, budget formulation, execution and reporting, as well as design and implementation of critical reforms. Furthermore, there is an urgent need to strengthen the capacity of the state to generate domestic resources to finance the reconstruction of the economy and ensure delivery of essential services.

As indicated by Staines (2004), sound macroeconomic policies help sustain recovery and growth and avoid a relapse into conflict. The Staines (2004) study which covers 23 conflict affected countries, observed that in the post 1990 period, a sound macroeconomic policy

stance facilitated significant economic recovery after conflict in over 80 percent of countries covered by the study. Similar conclusion was reached by Collier and Hoeffler (2002). Rogers (2006) noted that there exist a “virtuous cycle” between institution building and the implementation of good economic policies. As argued in the study, improvements in public expenditure management and tax administration help establish fiscal discipline. This in turn contributes to success in achieving macroeconomic stability and growth, thereby providing a more stable and productive environment for further institution building.

The growing literature on post-war reconstruction tends to emphasize the importance of rebuilding institutions in order to facilitate the process of economic recovery and effective absorption and management of aid flows. According to Rogers (2006), the usual pattern is to observe a surge in aid flows immediately after cessation of hostility and for the aid flows to taper off over time. Collier and Hoeffler (2002, 2004) have argued that this pattern of aid flows leaves much to be desired due to low absorptive capacity of the receiving countries in the early post-conflict period. The countries are usually weak politically and administratively immediately after conflicts. Hence, rushing aid to the affected countries might not be a viable way of reconstructing the country.

### **3. Evidence from the Democratic Republic of Congo and Angola**

#### **3.1. The Case of the Democratic Republic of Congo (DRC)**

The Democratic Republic of Congo (DRC) has been at the centre of what has been dubbed Africa's First World War or Great War, involving six neighbouring states - Rwanda, Burundi, Uganda, Central African Republic, Congo Brazzaville, and Angola.

Despite a rich mineral endowment, a vast hydroelectric potential, and an entrepreneurial population, the DRC is among the poorest and least developed countries in the world. Since gaining independence from Belgium in 1960, the country has experienced two major wars, fuelled by the country's vast mineral wealth, against the backdrop of constant political instability. Diamonds, timber, gold, cassiterite, and coltan are just a few of the precious resources being fought over not just by Congolese factions, but also by DRC's neighbours as they too seek to exploit the confusion of war for profit.

Precipitated by the 1994 genocide in Rwanda and the fall of President Mobutu, who was toppled by foreign-backed rebel leader Laurent-Desiré Kabila in 1997, the war started in 1998 when Rwanda and Uganda-backed Congolese rebels tried to overthrow President Laurent Kabila, accused of harbouring armed militias that threatened regional security in general and these two neighbouring countries in particular. Zimbabwe, Angola and Namibia joined the

war on Kabila's side and thus the DRC was soon divided into government and rebel-controlled zones. Kabila's assassination in January 2001 led to the appointment of the current president, Joseph Kabila. Aid organizations have estimated that about 3 million people have been killed and that about 2.5 million people were internally displaced since the beginning of the conflict.

The peace accord signed in Pretoria in December 2002, after several failed rounds of negotiations, officially ended the war. But the Kinshasa government has no control over large parts of the country and tension remains high in the east. In spite of the recent elections, its first in 46 years, the DRC remains under a fragmented patchwork of control by different and largely unaccountable armed forces.

Although the peace accord paved the way for the inauguration of a government called Transitional Interim Government in April 2003, the past four years have been characterised by political instability and continued violence, despite international efforts to safeguard the peace process, through repeated reinforcement of the peacekeeping force of the United Nations and multilateral and bilateral donor support.

The DRC was to initiate political and economic reforms, the demobilization of combatants, and the creation of an integrated army and police. It was also expected to organise national elections, initially set for June 2005. With the installation of the transitional government in July 2003, the country re-established some vital economic and commercial links amongst the different regions. In 2001, despite debt arrears with the International Financial Institutions (IFIs), the Kabila government adopted an *interim IMF-monitored program* covering the period June 2001-March 2002. This programme entailed the adoption of a number of policy measures, including the floating of the exchange rate, as well as undertaking some structural reforms to stabilize and liberalize the economy.

Initial results were encouraging. Budgetary discipline was instituted, as well as price and exchange rate distortions were tackled. After years of hyperinflation, inflation decelerated sharply, and this in turn stabilized the exchange rate. As a result, the overall performance has been positive, with growth resuming for the first time in 13 years in 2003, and with the rate of inflation falling to about 15%, from 511% in 2002.

A three-year Government Economic Program (PEG), supported by the Fund's Poverty Reduction and Growth Facility (PRGF), was approved on June 2002. New statutes of the Central Bank were adopted according to which the Central Bank cannot lend to the government. On September 22, 2002, Paris Club creditors granted exceptional debt relief beyond the Naples terms. Far-reaching structural measures were put in place, resulting in the

removal of major economic distortions, notably through the unification of multiple exchange rates and the liberalisation of prices. There was also a profound change in the judicial and regulatory environment so as to create an institutional framework propitious for private sector-led growth.

In response to these positive results, the international community began a coordinated effort to assist the DRC in normalizing relations with multilateral and bilateral creditors, starting with the clearing of arrears to the IFIs. The first Consultative Group Meeting took place in Paris in December 2002, with donors pledging \$2.5 billion in recognition of the government's efforts towards peace and economic reform, and as a response to the needs created by the severe socio-economic and humanitarian crisis in the country.

Significantly, the DRC reached the completion point under the IMF's enhanced Heavily Indebted Poor Countries (HIPC) initiative. The main challenges for the future lie in consolidating the recently achieved macroeconomic stability and in deepening far-reaching structural reforms, consistent with the Government's interim poverty reduction strategy paper; continuing to improve governance and the business environment; and ensuring a smooth reunification of the country.

### **3.2. The Case of Angola**

Angola has suffered from conflict for over thirty years: a bloody struggle for independence was followed by a recurring civil war. In spite of its rich natural resources, producing approximately 1.4 million barrels of oil per day/bpd, second only to Nigeria in Africa, it is a country in ruins. Its two mineral resources, offshore oil and alluvial diamonds in the interior, prompted a protracted war, which lasted from 1975–2002, between the MPLA (People's Movement for the Liberation of Angola) government and the UNITA (National Union for the Total Independence of Angola) rebels. Angola's oil and diamonds have indeed sustained one of the longest conflicts in the world, and have provided little but suffering for its population.

The country went through a 27-year long civil war with devastating impacts on political and social institutions. Sadly, the two main resources (oil and diamonds) were each controlled, respectively, by the government and by the UNITA rebels. Hence, both parties had access to resources to finance their campaigns. In fact, it was the ambush and subsequent assassination of the rebel leader, Savimbi, a main beneficiary of the diamond business, which led to the quick resolution of the conflict.

The war in Angola has led to the death of an estimated 500,000 people since 1989, and to the displacement of about 1.8 million people. Angola is believed to be the most mined country in

the world, leading to enormous non-combatant and post war casualties. With a poor and sometimes completely absent social support system, the humanitarian situation in Angola is grave. The war brought about a near collapse of the administrative infrastructure, as well as of many social institutions.

Relative peace has been restored, but the consequences of the protracted war continue to be felt in the country, even though the economy of the country is one of the fastest growing in the world. The high level of corruption in both the oil and diamond sectors continues to be the order of the day in Angola, as the national elites continue to siphon off large amounts of money from the government's coffers.

The Angolan authorities have launched the first "2003 MDG/NEPAD Report", which is aimed at providing baseline indicators against which progress will be measured until the year 2015. The Government of Unity and National Reconciliation has identified the following priorities over the first three years after the conflict:

- The social and productive reintegration of demobilized soldiers and of people displaced during the war; and
- Improved delivery of basic social services to the people throughout the country; and
- The pursuit of macro-economic stabilization.

The policy framework required to implement these priorities were formulated in a series of short, medium and long term programmes as contained in the National Poverty Reduction Strategy (Estratégia de Combate à Pobreza, approved in January 2004) and the Biennial Programme for 2005-2006 (Programa Geral do Governo 2005-2006). The medium term plan is to run from 2008 to 2010 while the long-term development vision is to run to 2025. The broad objectives of the short term plan are (1) Consolidating the peace and national reconciliation; (2) Laying the foundations for an integrated, self-sufficient national economy; (3) Re-establishing the state administration across the entire national territory; (4) Human resources development; (5) Harmonious development of the national territory; and (6) Consolidating the democratisation process, including holding free and fair elections (UNDP, 2006). These broad objectives are also to be pursued into the long term.

In all, the government has implemented a poverty reduction strategy since the advent of peace in 2002. There is however a feeling that government is wasting money on white elephants, such as a new international airport. Little of the country's oil wealth is reflected in the daily lives of its people. A big chunk (about 70%) of the (national) budget is currently for 'special use', and no one really knows what it is used for.

According to *Angolense*, a newspaper based in the capital, Luanda, ten Angolans have fortunes exceeding US\$ 100 million, while another 49 have more than US\$ 50 million. President José Eduardo Dos Santos was rated as the richest of the rich, followed by a parliamentary deputy, two officials in the president's office, an ambassador, a former army chief of staff, and the minister of public works. The seven richest Angolans were all in the ruling MPLA government.

#### **4. Outstanding Policy Challenges in Post-conflict Economic Reconstruction**

Economic development in post-conflict environments is a broad subject. Not least due to the facts that two conflicts are not entirely the same and there remains considerable scope for what constitutes an appropriate economic development strategy under normal circumstances. As a result, this study is at serious risk from the 'one size fits all' criticism that haunts much of development policy making.

Nonetheless, recreating a viable economy after prolonged violent conflict remains one of the most serious challenges for both countries. While the challenges of post-conflict economic recovery are unique to every different country, there are certain challenges or commonalities for both countries to differing degrees. In the DRC for example, sharp polarization and ethnic confrontations that propelled the conflict in the first place still remain as a legacy of the war. This was apparent during the recently concluded presidential elections in 2006. Voting was carried out along regional/ethnic lines. The state seems to be weak in terms of managing the deep division in the country. The unification of the country under one political authority has remained elusive because of poor management of this division. Post conflict reconstruction has remained largely difficult due to the absence of a unified political control over a vast majority of the DRC. Angola has fared better on this score. Furthermore, the DRC is yet to be at peace with some of her neighbours who took part in the war.

The establishment of a safe and secure environment is an essential ingredient for economic recovery. The leadership must focus on measures aimed at breaking the cycle of violence through the disarmament and economic reintegration of armed groups, and through the strengthening of justice and security. Indeed, if post-war reconstruction is to be truly effective, it must also involve reconstructing social structure, culture, and human relationships. Often this means developing an environment that fosters reconciliation, forgiveness, the transformation of relationships, and ultimately peaceful co-existence.

The success of post-conflict economic reconstruction will depend, largely, on the extent to which infrastructures are revamped in both countries. The scanty infrastructure in the DRC

has been almost wiped out while the hinterland in Angola has remained largely inaccessible. Both countries, particularly the DRC, are vast in land size. A quick way of linking all regions is by telecommunication. Roads and railway will then follow.

There is also a need to establish, or to re-establish, basic underpinnings of the economy. Indeed, one of the fundamental requirements for economic growth is a state capable of providing public goods and a legal framework for investment. This often requires the establishment of new government institutions, including a well-defined system of distributing property, a legal system to enforce property rights, and of a state infrastructure that can perform necessary economic tasks that are not fulfilled by markets. In many cases, the state must also establish new trade and monetary systems, and must stabilize the national currency. Banking systems that can provide access to financial services for large segments of the population must be developed. Many deposit banks were looted during the crisis, and the payment and settlement system, particularly in areas controlled by the rebels, has been totally ruined. Banking services need to be restored in hitherto inaccessible communities, and the regulatory environment that had been weak in the past, particularly in the DRC, needs to be reviewed and improved upon. A practical approach is to start to license new (particularly foreign) banks.

Among the measures that should be undertaken in pursuit of these confidence-building and economic normalization objectives are:

- The formulation of sound gender-sensitive macro-economic, fiscal, and monetary (including commercial banking) policies;
- Strengthening of the capacity of law-enforcement and judicial agencies;
- The implementation of trade policies aimed at the integration of the country into the global economy;
- The inculcation of service-delivery, “customer-caring”, and investor-friendly attitudes in all cadres of the public service;
- The provision of financial, technical advisory, and information services to small and medium-scale enterprises, including enterprises run by women; and
- The provision of sundry “match-making” services to link domestic with foreign investors, and local producers, including women producers, with the world market.

However, these are only tools available to policy-makers to achieve the wider objective of long term, sustainable and inclusive development. It is vital that the country develops a widely accepted and nationally owned strategy for development that is, in turn, enthusiastically implemented by the government. Transparency must be the *modus operandi*,



for this strategy, particularly as regards the sources and uses of government income, especially from natural resources rents, that have caused conflicts in the past. It should be noted that not just aid, but the permanent and generous opening of developed country markets to the goods and services of post-conflict countries can contribute to sustainable development. The cessation of hostility in both Angola and the DRC has attracted some significant inflow of aid from international donor agencies and multilateral lending institutions. The countries are also enjoying favourable terms of trade on major exports. However, the issue of mismanagement and corruption is still rampant. It is alleged that the disarmament process in the DRC is being stalled by mismanagement of the \$200 million aid from the World Bank. The opposition in Angola is accusing the government of corruption and gross mismanagement of oil revenue. The Angolan authority is yet to sign up to the Extractive Industries Transparency Initiative (EITI). Corruption and mismanagement is an indication of weak institutions and regulatory framework. This has the potential of sending negative signals to investors and the international community at large. If post conflict reconstruction challenges are to be overcome, the government must put in place measures to tackle the menace of corruption and mismanagement. Currently, analysts are of the opinion that the government of the DRC is highly incompetent in terms of managing post conflict economic reconstruction activities.

It is important to note that transparency is currently threatened by the entry of China into many of these resource markets, particularly in Angola. China has made it clear that it does not believe in transparency or conditionality in its dealings in Africa, thus undermining efforts of other countries competing with it for the same resources.

Post conflict economic reconstruction poses challenges that are enormous and obviously different from normal development plans. Policy measures that are hitherto unthinkable in a peaceful environment will need to be implemented. However, both Angola and the DRC have little experience in the design or implementation of development programmes. The conflicts in both Angola and the DRC have effectively weakened the state apparatus in terms of governance ability and capability. Both countries lack the required skilled manpower to take on the task of economic reconstruction. The assistance of the international communities in this respect will have to be sought. Dearth of competent hands is a major constraint in fast-tracking the reconstruction effort. The conflict in both countries led to the flight of skilled manpower to other parts of the globe. The government of both countries can put in place measures to attract such hands. As argued by Del Castillo (2003), the implementation of post

conflict reconstruction requires expertise not normally available among development institutions.

Evidence tends to suggest that decentralization offers considerable scope for achieving desirable functional attributes, typically associated with democratic governance, such as citizen participation, transparency, accountability and state-society integration. Decentralisation should be seen in the context of fiscal administration and state building. The goal will be to create a functioning state. Conflicts are largely arising as a result of the failure to reconcile their internal political, ethnic, and religious differences, and to establish political systems that are capable of accommodating the demands and interests of their various constituencies. Decentralisation is a viable way to address this issue.

## **5. Concluding Remarks**

The task of economic reconstruction in both the DRC and in Angola is quite enormous. Post conflict reconstruction effort in both countries is not sufficiently backed by strong political will. This is particularly the case in the DRC where government efforts are largely at variance with pronounced targets. The absence of strong political will to take on the task of economic reconstruction is slowing down the pace of reconstruction in both countries. Political will is required to build consensus for macroeconomic management and structural reform. The governments of both countries (DRC in particular) behave as if it were observer while the international community was the real actor in the reconstruction process.

There is the need therefore for all actors to work together to fast track the process of national reconciliation and reconstruction. Given the low capacity and the demonstrated incompetence of the state apparatus, it is important that the private sector will be allowed to increasingly play a role in the development process.

It is paramount that both countries uphold and promote participatory democracy and the rule of law. It is well-known that conflicts are largely attributable to the weakening or the absence of democratic institutions and processes, as well as the marginalisation of the people for a prolonged period. A common feature in countries is the over-centralisation of governance institutions and processes, and the concentration of power in the hands of a selected few. Evidence has shown that there are enormous socio-political and economic benefits to be derived from participatory governance, and this must be pursued vigorously. It is critical that the state takes a leading and more pro-active role in the reconstruction process. The best the international community can do is to provide financial and technical assistance, but the

destiny of both countries will depend, largely, on how the processes of reconciliation and reconstruction are managed by the political elite.

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# **Bakassi Dispute Settlement between Cameroon and Nigeria: What Prospects for Sustainable Peace and Development?**

Francis Menjo Baye and Alexandre Magloire Schouame

## **Abstract**

*This paper sets out to evaluate the implications of the Bakassi conflict settlement for sustainable peace and economic development in Cameroon. It develops a conceptual framework of international conflict dynamics and resolution, and examines the geopolitics of the Bakassi dispute, as well as the socioeconomic implications of its peaceful resolution. Historical accounts indicate that Bakassi Peninsula has always been in Cameroon dating from the 1913 Anglo-German Treaty, but because of neglect and subsequent discovery of oil deposits, the area became subject to: claims and counter-claims for sovereignty; military occupations; and recourse to the International Court of Justice (ICJ). The ICJ ruling in 2002, though in tandem with historical facts, faced implementation difficulties. However, following mediation by the good office of the UN Secretary General, good faith among contestants, and the Green-tree Agreement, Nigeria effectively withdrew its forces from the Bakassi Peninsula on August 14, 2006. The entire process is a model in peaceful settlements of border disputes subject to adequate accompanying measures. The paper identifies expenditure reducing and switching effects of peaceful settlements, wealth generating effects of international credibility, and cross-border activities enhanced by confidence building as potential socioeconomic fallouts of the peace-dividend. Infrastructural developments and effective presence in border areas should feature prominently in border management policies, and the International Community could encourage other peaceful settlements by rewarding the good sense demonstrated by the leadership of Cameroon and Nigeria.*

## **1. Introduction**

Conflict situations over the control of valuable natural resources have been a persistent feature of national and international affairs for decades. In addition to allowing some of the most corrupt and oppressive regimes to remain in power, oil and other natural resources have been fuelling conflicts within and between African countries. As observed in Klare (2004), such conflict situations may include: territorial disputes over the possession of oil-laden border areas; dynastic or factional struggles among the leaders of oil-rich countries; and major inter-

state wars over the control of vital oil and mineral zones. These outcomes are likely to intensify as natural resources become more scarce and valuable.

As recalled in Rourke (1997), and Aghemelo and Ibhasebhor (2006), Africa was largely controlled by indigenous people in the 1870s but, by 1914 it became almost exclusively subjugated and divided into protectorates or colonies by the European powers. The colonial boundaries in these arrangements had little relationship to the territories occupied by the various indigenous people. Grouping nations together in some cases and dividing them in others was a common feature as long as it was consistent with security and economic interests of the colonial powers. After independence, most of Africa became and is still troubled by the legacy of trying to get originally different indigenous groupings to live peacefully in a single country or the same ethnic-group to live peacefully in different countries.

As in most of Africa, therefore, the origins of the conflict situation between Cameroon and Nigeria over border issues can be traced to the colonial era and some post-independence political activities. For historical and economic reasons, the Bakassi Peninsula which is one of the disputed territories has never constituted a real barrier to cross-border movement of people and goods (Konings, 2005), yet in the 1980s and 1990s it became subject to violent skirmishes between Cameroon and Nigeria, culminating into a protracted struggle over the sovereignty of the area.

As argued in Klare (2004), there is a close connection between oil and conflict, which derives from three essential features of petroleum: (1) its vital importance to the economic and military power of nations; (2) its irregular geographical distribution; and (3) its imminent changing “centre of gravity”. The Bakassi Peninsula and the 1600 km long border between Cameroon and Nigeria extending from Lake Chad to the Gulf of Guinea has been a bone of contention between the two countries dating back to 1913. However, the knowledge that the Peninsula harbours important deposits of oil and gas reserves and the ethno-linguistic balance, to a lesser extent, are triggers that provoked mounting hostilities and military confrontations in the early 1990s between Cameroon and Nigeria.

In 1993 Nigerian troops occupied the Bakassi Peninsula, purporting to protect Nigerian citizens in reaction to what was considered the harassment of its fishing vessels and traders by Cameroonian Gendarmes, while Cameroon maintained it had to exercise its sovereignty and protect its territorial integrity by taxing those who live on its territory. In 1994 following serious incidents of border incursions that provoked more shooting, recording many casualties and deaths of soldiers of both countries, Cameroon tabled its entire border related disputes with Nigeria to the International Court of Justice in The Hague for adjudication. After

examining the case for eight years, the World Court ruled that Cameroon is the rightful owner of the oil-rich Peninsula, basing its argument on the 1913 Anglo-German Treaty tracing the borders between the two colonial powers. Nigeria eventually agreed to abide by the ruling, but in 2004, two years after the verdict, what was termed “technical difficulties” prevented it from handing over the Peninsula even though other disputed border areas were exchanged with no incidents.

Following intensive diplomatic activities that culminated to the Green-tree Agreement (June 12, 2006) brokered by the United Nations and witnessed by four world powers: Britain; France; Germany; and the United States, Nigeria agreed to unconditionally handover the oil-rich Bakassi Peninsula to Cameroon. On August 14, 2006 Nigeria effectively pulled out its military and the Cameroonian flag was hoisted, while a transition period of two years as per the Green-tree Agreement was given for the Nigerian administration to leave the Peninsula.

In this context, a number of issues come into mind: Is the outcome of the Bakassi conflict a model of conflict resolution and economic cross-border development, or is it more a situation of conflict dynamics, crisis and economic instability? Answers to these concerns are likely to depend on history and the root causes of the dispute, the credibility of the resolution process, and the international ambitions of both Cameroon and Nigeria. Above all, accompanying measures may be required to cushion activities of existing social movements, which are likely to operate singly, severally or in coalition with other external forces to undermine the peaceful settlement of the Bakassi conflict. If such measures are not contemplated and implemented without much delay, the highly acclaimed peaceful settlement of the Bakassi conflict may well become a masquerade in the near future, as social movements and their sponsors find incentives to install an atmosphere of uncertainty.

The main objective of this paper is to evaluate the implications of the Bakassi conflict settlement between Cameroon and Nigeria for sustainable peace and economic development. The specific objectives are: (1) to develop a conceptual framework of international conflict dynamics and resolution; (2) to examine the geopolitics of the Bakassi dispute; (3) to evaluate the implications of the verdict of the International Court of Justice (ICJ) and subsequent instruments for socioeconomic development and international conflict resolution; and (4) to outline policy recommendations on the basis of the analysis. These objectives are guided by the contention that the outcomes of international conflict management depends on history and the current international ambitions of the parties in conflict.

The rest of the paper is organised in four sections. Section 2 outlines a conceptual framework of international conflict dynamics and resolution with particular reference to the Bakassi

conflict. Section 3 examines the geopolitics of the Bakassi dispute, highlighting the legal instruments concluded by the colonial masters, the advent of independence, and political activities that raised awareness to the Bakassi question. Section 4 examines the implications of the International Court of Justices ruling and the Green-tree Agreement, and Section 5 submits concluding remarks.

## **2. International Conflict Dynamics and Resolution: A Conceptual Framework**

This conceptual framework discusses the nature of international conflicts, dynamics of international conflicts, and oil as engine and fuel for conflict situations, before establishing the dispute settlement linkages between Cameroon and Nigeria.

### **2.1. Nature of International Conflicts**

Conflict is normal, natural and cannot be avoided, yet it can generate negative and very destructive impacts on economic growth and development (Ivorgba, 2005). This implies that conflict *per se*, could be neutral and harmless. What is at issue, therefore, is our response to conflict and post-conflict situations. Conflict is always an indication that somewhere, there is misunderstanding or an aspect that requires attention and proper action. Conflicts can be domestically motivated, externally driven or both. International conflicts are disagreements or clashes between or across nation-states.

Such conflicts might be between one or more governments to monopolise the exploitation of resources in disputed territories. It might occur when one state tries to prevent another from obtaining some resources that are vital to its survival and wellbeing of the ruling class. It could arise when one or more governments intervene in domestic disputes of another state. Occasionally, a conflict may ensue where the nationals of one state are attacked, dehumanised, killed or maimed by the agents of another state. Conflicts between countries are often presented as occurring between their governments and such situations are either conducted or perceived as inter-governmental contests or struggles where the bone of contention is usually territory or some other economic resource (Asobie, 2003). It is seldom the welfare of the ordinary citizens of one or more of the states concerned that provoke conflict situations in Africa. Even when such reasons are brandished, they often turn out to be attempts at concealing other agendas.

As noted in Asobie (2003), a deeper examination may reveal that, in essence, international conflicts are struggles between or among social groups or more precisely, social classes, clashing across national boundaries. In this regard, the real actors in international conflicts are



social classes which, in their struggles, mobilise and use the various state institutions to push forward their goals. For the most part, contests are related to the control of some productive resource: objects of labour (land, raw materials); instruments of labour (technology, capital); or to a lesser extent, labour power (trained or specialised human resources).

Indeed, international conflicts may be viewed as occurring when contending social classes, operating from distinct national boundaries or relatively autonomous territorial entities, struggle to establish monopolistic control over some global productive resource. Hiding behind governments, in some international conflicts, are the monopolistic capitalists operating trans-nationally and with multinational tentacles. Major oil and mineral exploiting companies fall in this category. Yet victims of such conflicts remain the working people - peasant farmers, fishermen, petty traders, and workers, especially the youth and women.

## **2.2. Dynamics of International Conflicts**

The dynamics of most international conflicts may be shaped by three critical factors: (1) the nature and size of the booty that would accrue from the conflict. This refers to the relative utility and size of the presumed productive forces or social product that the victor might gain after the struggle; (2) the nature of the relationship between the social classes that constitute the primary and secondary actors in conflict. Once monopolistic capitalists either on one side or on both sides of the state territorial boundaries have high stakes in the outcome of the conflict, the spiral of international conflicts will be almost unending; and (3) the nature of domestic politics in the nation-states that form the bases for the contending parties. This includes the nature of the regime in power. Authoritarian or dictatorial regimes have the tendency to provoke the emergence of violent intra-state politics, even if to divert attention from burning domestic issues. This violence is easily translated into coercive international diplomacy, which may engender violent international clashes.

Generally, when violent conflicts erupt between two contending ruling classes of two distinct national societies or states, they are extensions of violent intra-state conflicts promoted by the various discontented social groups who may be having international connections. As observed in Hoffmann (1985), one definitely cannot imagine a non-violent diplomacy as long as violence has not been eliminated from intra-state politics. In this connection, social movements within territorial boundaries frequently seek to establish links with similar bodies in neighbouring countries and will spare no effort in taking advantage of a conflict situation to gain international recognition.

### **2.3. Oil as Engine and Fuel for Conflict Situations**

In some cases conflicts originated before the discovery of petroleum, but became interwoven with oil issues as the importance of oil as a factor of production increases. The drivers of such tendencies are territorial disputes; separatist struggles; and factional and dynastic struggles.

Territorial disputes occur in border zones and offshore areas that were thought to possess no particular value (and so were not considered worth fighting over), but suddenly become very valuable (and thus worth fighting for) when oil is discovered there. For several decades, neither the Nigerian nor Cameroonian ruling elite showed any particular interest in the Bakassi Peninsula. Neither showed any concern nor initiated any programme that was capable of ameliorating the deplorable conditions of mass poverty, squalor and destitution in which most Bakassians live. But interest over the ownership of Bakassi by Nigeria and Cameroon began immediately it was discovered in the eighties that the Peninsula was floating on reserves of crude oil (Sango, 2002). It was only then that the elite of both countries started making serious claims and counter-claims over the territory. In essence, the struggle by the Nigerian and Cameroonian ruling classes for ownership of the Peninsula is not dictated by concern for the well-being of the residents of Bakassi, but rather for the rich oil reserves and fishing grounds found in the area and its strategic location on the Atlantic Ocean. Indeed, Nigeria started undertaking some social infrastructural developments in Bakassi only in 1997, four years after it occupied the Peninsula.

Separatist struggles occur when oil is produced or presumed to exist in an area largely inhabited by an ethnic minority and the bulk of oil revenues go or are expected to go to government officials in the national capital. In this context, members of the minority often perceive a strong incentive to break away and establish their own ethnic state, with a view to getting all of the oil revenue. This sort of struggle is occurring in the southern part of Sudan and in Cameroon, the case of the Southern Cameroon National Congress (SCNC) that sympathises with advocates for the independence of the Bakassi Peninsula as “The Republic of Ambazonia” (Gumne, 2006). In some cases such as the Delta region of Nigeria, ethnic minorities are fighting to gain greater autonomy (and a larger share of oil revenues) rather than a separate state entirely.

Factional and dynastic struggles occur because whoever controls the government of oil-producing states also controls the allocation of oil revenues. Those in control will seek to retain power for as long as possible, using any means necessary (including heavy-handed repression and election rigging), while those excluded from power will have a powerful incentive to use any means necessary to gain control (including armed rebellion, terrorism, or

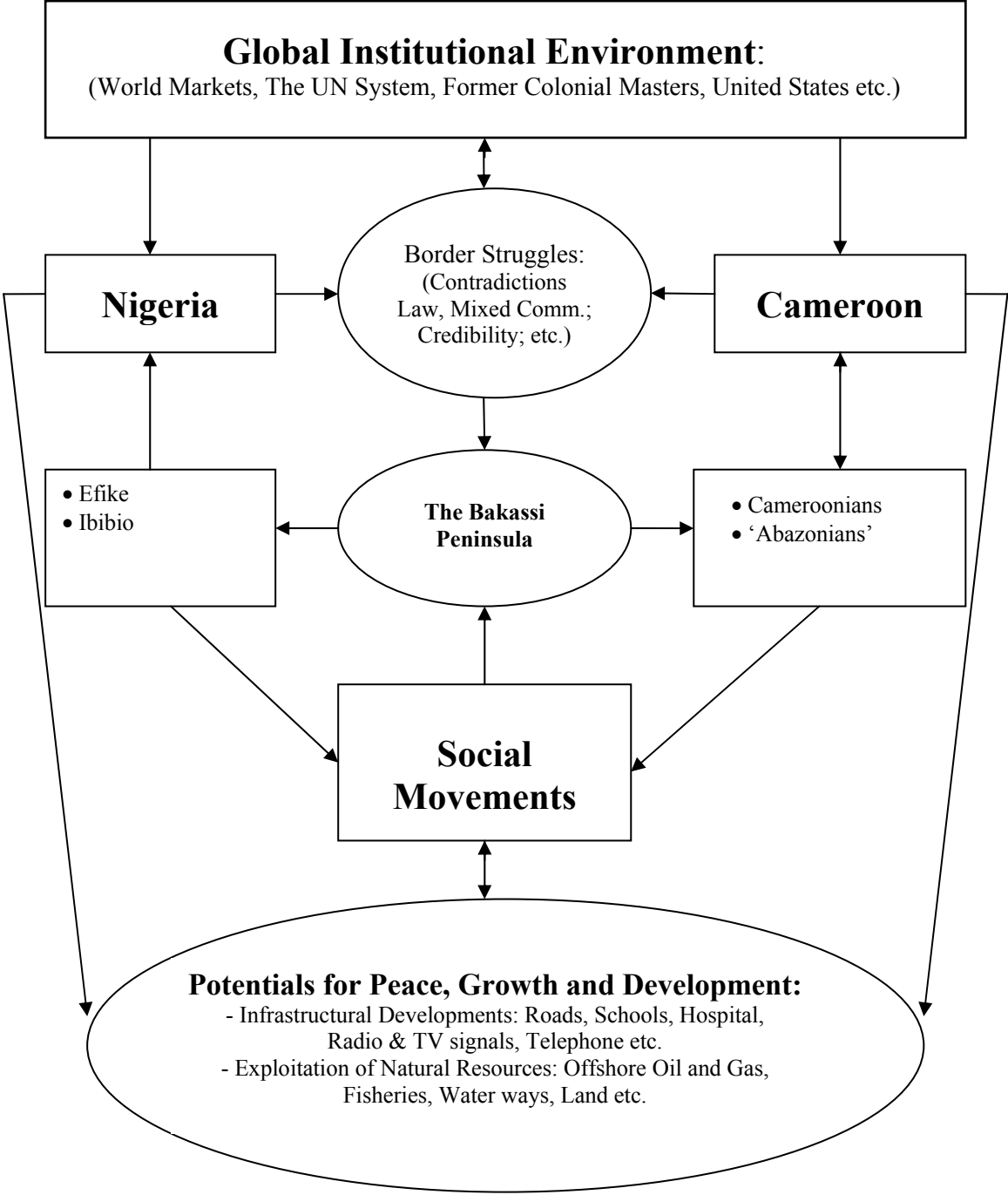
coup d'état). These sorts of dynastic and factional struggles have been a consistent pattern in countries like Nigeria and Saudi Arabia, as well as in most oil-rich states with a burden multiparty practice. In other countries, especially Venezuela, disputes over the allocation of oil revenues have taken the form of political violence between competing parties and interest groups (Klare, 2004).

#### **2.4. Dispute Settlement Linkages between Cameroon and Nigeria**

The conflict between Nigeria and Cameroon is a boundary and territorial dispute. One of the territories in dispute is the Bakassi Peninsula, which is our main focus and has generated a lot of public interest in both countries. Attempts were made in the past to resolve the dispute through bilateral negotiations, and other peaceful conflict management strategies. But, in 1981, and again in 1993, 1994 and 1996, the dispute nearly degenerated to a war between Nigeria and Cameroon. Between 1994 and 2002, the matter was before the International Court at The Hague. A judgment was pronounced in 2002 by the ICJ on the matter and the Nigerian government issued a statement rejecting the verdict of the International Court. Yet following the June 2006 Green-tree Agreement in New York between Cameroon and Nigeria, Nigeria effectively withdrew its forces from the Bakassi Peninsula in August 2006. This has been described as a remarkable outcome in conflict resolution in Africa. However, it will be naïve to conclude that the issue has been neatly resolved without a careful examination of the linkages propelling the conflict and resolution processes.

The case is a direct and indirect conflict over natural resources that have been ongoing for decades, especially since the end of colonialism in Nigeria and Cameroon. Figure 1 presents the relationships among various actors and issues in the dispute over the Bakassi Peninsula. The states in conflict are Nigeria and Cameroon and the International Court of Justice (ICJ) awarded the Peninsula to Cameroon in October 2002. Even so, the maritime frontier between the two has yet to be demarcated, leaving a large area of disputed ownership that is still to be fully explored for oil. After the ICJ verdict, which of course has no enforcement mechanism, the Nigerian parliament submitted that the handover would be unconstitutional and demanded a referendum (Price, 2005).

**Figure 1: Conflict Dynamics and Settlement Linkages: Cameroon and Nigeria**



Source: Construction by the authors (2007)

Even the UN body overseeing the negotiations – the Cameroon-Nigerian Mixed Commission - between the countries did indicate that technical problems have delayed the transfer of the Peninsula to Cameroon. This commission, set up by President Paul Biya of Cameroon and

President Olusegun Obasanjo of Nigeria through the UN Secretary-General, Kofi Annan, was to determine ways to implement the ICJ ruling and move the process forward.<sup>1</sup>

Figure 1 also reflects the idea that border struggles between Cameroon and Nigeria are the product of a number of contradictions: (1) a clash between tradition and modernity. In this regard, the pre-colonial history of the ancient kingdom of Calabar is haunting the post-colonial reality of contemporary Nigeria and Cameroon; (2) there is the tension between cartographical fact and cultural reality: the map is in conflict with the people; (3) there is conflict between the dictates of international law and citizenship; and (4) there is a gap between the demands of *raison d'être* or pragmatism and the needs and concerns of citizens.

In this framework, potentials for peace and the judicious exploitation of the natural resources in and around the Bakassi Peninsula will very much depend on the “principle of good faith” (Aghemelo and Ibhasebhor, 2006) and on responses by social movements, which include the concerns of the Anglophone Cameroon secessionist movement and the Nigerian migrant community in the Bakassi Peninsula. Essentially, there are two simultaneous issues to be guarded against: sabotage resulting from subsequent oil development and fisheries in the Bakassi region and the potential for further violence as secessionist movements (Ambazonians), other Cameroonians, Nigerians and the inhabitants of the Bakassi Peninsula (Efike) contest or undermine the Green-tree Agreement. In this connection, accompanying measures by both Cameroon and Nigeria, as well as by the International Community are needed to sustain the peace-dividend. The section that follows addresses the geopolitics of the Bakassi dispute.

### **3. Geopolitics of the Bakassi Dispute**

#### **3.1. The Colonial Legacy**

Before the scramble for Africa, Bakassi was part of the ancient kingdom of Calabar. The people in the main settlements in the Bakassi Peninsula owed allegiance to the Obong of Calabar. The Obong of Calabar placed not only Calabar, but also the Efike and Ibibio (in the Peninsula) under British protectorate via a Treaty on September 10, 1884. The chiefs of Efike and Ibibio were co-signatories to the Treaty. Subsequently, through a series of bilateral treaties and other legal instruments, the British ceded the territory, first to Germany, and later placed under the mandate of the League of Nations and the Trusteeship of the United Nations, then by plebiscite to independent Cameroon in 1961.

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<sup>1</sup> See United Nation, 2006, "Bakassi Peninsula: Recourse to the Law to Prevent Conflict", <http://www.un.org/events/tenstories/story.asp?storyID=900>

The critical legal instruments that changed the status of the Peninsula and its inhabitants were the following (Aghemelo and Ibhasebhor, 2006; see also Omoigui, 2006):

- the Agreement between the United Kingdom and Germany signed in London on March 11, 1913 entitled “(1) the Settlement of the Frontier between Nigeria and the Cameroons, from Yola to the sea, and (2) the Regulation of Navigation on the Cross River”,
- the Anglo-German Protocol signed in Obokun, on April 12, 1913 demarcating the Anglo-German boundary between Nigeria and Kamerun<sup>2</sup> from Yola to the Cross River. Eight maps accompanied this Protocol,
- the Exchange of Letters between the British and German governments on July 6, 1914;
- the endorsement, in April 1961, by both the United Nations General Assembly and the International Court of Justice, of the results of the plebiscites conducted in Northern and Southern Cameroons in 1959 and on February 11 1961, respectively, and
- the Diplomatic Note, accompanied by a map, dispatched to the government of Cameroon by Nigeria, in 1962 accepting the results of the plebiscites.

For the Bakassi Peninsula in particular, the Germans were interested in getting assurance that Britain would not seek to expand eastwards. The British were interested in uninterrupted and secure sea route access to Calabar, a key trading port. Since the Germans already had the option of using the Douala port, they conceded the "navigable portion" of the offshore border to Britain. In exchange, Britain conceded the Bakassi Peninsula proper to Germany. In other words, to get Germany's cooperation not to threaten access to Calabar, Bakassi Peninsula was conceded by Britain. Note that "Nigeria" did not yet exist as an independent state in 1913.

In January 1914, "Nigeria" was created by amalgamation of the various British protectorates (or colonies) spanning the north to the south. At the end of the First World War, all German territories were divided between France and Britain by the Treaty of Versailles. The League of Nations placed them under French or British mandate. The boundaries between British and French mandated Kamerun was defined by the Franco-British Declaration of July 10, 1919. In this agreement Bakassi and the rest of what became known as "British Cameroons" were placed under British mandate and administered coterminous with "Nigeria" but not merged. The old 1913 border was retained. To codify this further, other agreements were signed on December 29, 1929 and January 31, 1930 between Britain and France. These declarations were ratified and incorporated in an Exchange of Notes on January 9, 1931 between the

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<sup>2</sup> The appellations Kamerun, Cameroun and Cameroons can be used interchangeable to refer to Cameroon depending on whether the perspective is that of the Germans, Francophones or Anglophones, respectively.

French Ambassador in London and the British Foreign Minister. Again, maps from that period show the Bakassi Peninsula within "British Cameroons" (see Omoigui, 2006).

### **3.2. The Advent of Independence**

On January 1st, 1960 and on October 1st, 1960, the French Cameroun and Nigeria became independent, respectively. Instruments creating the new countries and exchange of notes between France and Cameroun rehashed all its colonial boundaries as defined by previous colonial agreements. A plebiscite was held to "clarify the wishes of the people living in Northern and Southern Cameroons under British rule". The population of Northern Cameroons still under British rule had earlier - in 1959 - "decided to achieve independence by joining the independent Federation of Nigeria", while the population of Southern Cameroons "decided to achieve independence by joining the independent Republic of Cameroun" on February 11, 1961.<sup>3</sup> There were 21 polling stations on the Bakassi Peninsula itself and about 73% of the people living there voted to "achieve independence by joining the independent Republic of Cameroon" (see Omoigui, 2006)<sup>4</sup>.

Moreover, by Diplomatic Note No. 570 of March 27, 1962, the government of Tafawa Balewa of Nigeria exchanged diplomatic notes with Cameroon acknowledging the fact that Bakassi was indeed Camerronian territory (Aghemelo and Ibhasebhor, 2006). In July 1966, Lt. Col. Gowon came to power in Nigeria. As the Balewa government, he too committed his government to respect all prior international agreements made by the Balewa and Ironsi governments.

### **3.3. Political Developments and the Bakassi Question**

In May 1967, in response to the mandate granted to Lt. Col. Ojukwu by the self-imposed Eastern Consultative Assembly to secede, Lt. Col. Gowon created 12 new States in Nigeria – including the South-Eastern State headed by an Ibibio officer. The creation of the South-Eastern State from the former Eastern Region rekindled interest in rejoining Nigeria among Efike and Ibibio residents of Bakassi Peninsula – many of whom had actually voted in 1961 not to pursue integration with Nigeria. In July 1967, the Nigerian Civil War broke out – and lasted until January 1970.

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<sup>3</sup> UN General Assembly Resolution 1608 (XV) of 21 April 1961

<sup>4</sup> By spelling it as "Cameroon", rather than "Cameroun", the UN created an opening for some mischievous "Southern Cameroonians" to later say they never voted to join "Cameroun" which is the former French territory.

In April 1971, there was a summit meeting between General Gowon of Nigeria and Alhaji Ahmadou Ahidjo of Cameroon in Yaounde. It was at this meeting that Gowon and Ahidjo agreed to define the navigable channel of the Akpa-Yafe River up to Point 12. During the summit, Ahidjo asked his Cameroonian survey expert to stop arguing and asked Gowon to draw the line where he wanted it, and Gowon turned to his own technical expert for guidance. The expert marked a point on the map and Gowon drew the line towards that point (see Omoigui, 2006). Unfortunately, the line Gowon drew - on direct advice from the Director of Federal Surveys - was not the true navigable channel of the Akpa-Yafe River as established by the colonial masters. Not only did it run right into a ridge, the line crisscrossed the navigable channels of the Calabar and Cross rivers, which the British had intended (with German agreement) to be completely on the Nigerian side, west of the Akpa-Yafe channel.

Two months later in June 1971, the Joint Boundary Commission met in Lagos, led by Chief Coker for Nigeria and Mr. Ngo for Cameroon. They extended the already faulty Gowon-Ahidjo "compromise line" outwards to sea in what is now known as the Coker-Ngo line. A few weeks later, following the signing of the Coker-Ngo line, Gowon discovered what had transpired. In May 1972, the joint boundary commission met, followed in August 1972 by a summit meeting at Garoua, where General Gowon tried repeatedly without success to get Ahidjo to agree to the reversal and renegotiation of the Gowon-Ahidjo/Coker-Ngo line. An oil rig was erected offshore by the Ahidjo government in 1974 and later in June 1975 in a highly reluctant compromise to accommodate the rig, Gowon conceded a tiny part of Nigerian maritime territory to Cameroon.

On July 29, 1975 General Gowon was overthrown in a coup d'état. The new regime decided to question the 1971 and 1975 Gowon-Ahidjo maritime agreements – without really understanding the issues or acting mischievously. In no time the country got the impression that Gowon had given away the “Bakassi Peninsula” to Cameroon to compensate for President Ahidjo’s neutrality during the Nigerian Civil War, an unfortunate and totally false notion which persists in many quarters to this day (see Omoigui, 2006; Olumide, 2002). Many commentators still do not understand the difference between the maritime and land components of the dispute. Nor do many realize that the Peninsula had been ceded by a series of actions and inactions beginning as far back as 1913, reconfirmed when Nigeria became independent in 1960, finalised with the 1961 plebiscite and affirmed with the 1964 OAU (Organization of African Unity) declaration, which stipulated that independent African countries were bound to respect their colonial borders (see Omoigui, 2006).



## **4. Implications of the ICJ Ruling and the Green-tree Agreement**

### **4.1. Ruling of the ICJ and Difficulties in Implementation**

Cameroon tabled its border dispute with Nigeria before the ICJ in 1994 following the occupation of the Bakassi territory by the Nigerian troops on December 12, 1993. Cameroon anchored its claim over the ownership of Bakassi on the Anglo-German Treaty of March 11, 1913 when both territories now called Cameroon and Nigeria were under colonial rule. Nigeria tried unsuccessfully to challenge the legal basis of the 1913 Treaty, arguing that the two colonial masters had no *locus standi* to cede territories and that the agreement was not ratified by any of the parliaments of the two nations. Nigeria also unsuccessfully maintained that the alleged ceding of the Peninsula by Gowon was not endorsed by the Supreme Military Council, which was the law making body of the country at the time (Aghemelo and Ibhasebhor, 2006).

On October 10, 2002, after eight years of deliberations, the ICJ at The Hague decided Cameroon had sovereignty over Bakassi, basing its decision on old colonial documents (Lacey and Banerjee, 2002). The boundaries in the Lake Chad region were determined by the Thomson-Marchand Declarations of 1929-1930 and the boundary in Bakassi determined by the Anglo-German Treaty of March 11, 1913. The Court requested Nigeria to quickly and unconditionally withdraw administration, police and military from the area of Lake Chad under Cameroonian sovereignty and from the Bakassi Peninsula. The ICJ equally requested Cameroon to expeditiously and without condition remove any administration or military or police forces which may be present along the land boundary from Lake Chad to the Bakassi Peninsula on territories, which pursuant to the judgment fall within the sovereignty of Nigeria.

The Court fixed the land boundaries from Lake Chad in the north to Bakassi in the south. However, the Court did not specify a definite location off the coast of Equatorial Guinea of where the maritime boundary between the two countries would terminate (Bekker, 2003). The immediate reaction was that Nigeria rejected the ruling and at one point, it seemed possible the dispute would flare into open war, but UN mediation brought the two sides to table (Friends of the Earth, 2003; Sango, 2002).

When it became difficult to implement the ICJ ruling, both countries formed the Mixed Commission, which has so far worked hard to demarcate the land boundaries. All appeared on tract - some villages further north and around Lake Chad were exchanged until the handing over process reached the oil-rich Bakassi Peninsula. Two withdrawal timetables were not respected; thousands of Nigerians in the Bakassi Peninsula are not sure where they stand in

terms of citizenship and many want to remain Nigerians as they remain associated with Nigeria (Borzello, 2004). Nigeria's failure to give Cameroon full control of Bakassi on September 15, 2004, was predicated on the argument that their withdrawal would lead to the collapse of law and order.

In addition, Nigeria submitted that the most democratic manner to decide Bakassi sovereignty would be to hold a referendum since about 90% of the people on the Peninsula do not want to become Cameroonian (Eboh, 2005). Nigeria claimed that sovereignty of Bakassi is not a matter of oil or natural resources on land or in coastal waters; it is a matter of the welfare and well-being of Nigerians on their land (Federal Republic of Nigeria, 2002). There have been calls on the Nigerian government by some Nigerians to go to war over the matter. This school of thought argues that "there is no morality in international relation" and that it is against the national interest of Nigeria in terms of security and economic interest to accept the ICJ's verdict in its totality (Etim-Bassey, 2002). However, other Nigerians have cautioned against war – arguing that women and children are the most vulnerable victims of war – and that youths are the greatest losers in all social conflicts, domestic or international, not the men who usually ask for war (Asobie, 2003). They further maintain that "the principle of good faith" in international relations demands that Nigeria should not disavow her word of honour as evidenced by the Diplomatic Note of 1962 (Aghemelo and Ibhasebhor, 2006).

There is no doubt that the ICJ has a limited capacity to facilitate enforcement because there is a very weak interplay between ruling and binding enforcements. Implementation of rulings of the ICJ is largely dependent on the good will of countries in conflict. In situations where the countries involved are outward looking and cherish international credibility, diplomatic pressure can act as a credible punishment strategy and generate incentives to comply with international obligations. Such considerations appear to be applicable in the case of the border conflict between Cameroon and Nigeria as a model of international conflict resolution.

#### **4.2. The Green-tree Agreement**

Following intense diplomatic offensives and the good office of the UN Secretary-General, Cameroon was able to secure the recent Green-tree Agreement on June 12, 2006 with Nigeria, brokered by the United Nations Secretary General and witnessed by Britain, France, Germany, and the United States.<sup>5</sup> Under the Agreement, the Nigerian troops were to withdraw within a maximum of ninety days and a transition period of two years was given for the Nigerian administration to be replaced by the Cameroonian administration. Nigerians living in

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<sup>5</sup> Experts had noted that it was in US interests to resolve the dispute to provide "secure operating environment for oil companies" including Exxon-Mobil, which is active in the region (Friends of the Earth, 2003).

the Peninsula would be able to remain there under a special regime for four years after Cameroon takes full control and could stay on after that if they so wish.

According to the Nigerian President Olusegun Obasanjo, the Green-tree agreement is a great achievement in conflict prevention, which practically reflects its cost effectiveness when compared to the alternative of conflict resolution. He urged that it should represent a model for the resolution of similar conflicts in Africa and the world at large. Moreover, President Obasanjo has played a leading role in conflict resolution among African states. His refusal to respect the ICJ verdict would have left a black spot on his record. Meanwhile, his decision to respect the ICJ verdict and withdraw of military forces from Bakassi met with strong opposition from some radicals, who felt that Nigeria's military might should be used for expansionist ambitions. In the same spirit, President Paul Biya underscored the importance of the act, arguing that their credibility and that of the UN depends on its implementation and that it will begin a new era of trust, peace and cooperation between Cameroon and Nigeria.

On August 14, 2006 the Nigerian troops, in a solemn ceremony, peacefully withdrew from the Bakassi Peninsula, marking the climax of a long and meandering peace process that spanned a period of 12 years. The effective withdrawal of the Nigerian forces from Bakassi is an indication that it is possible for African nations who find themselves in conflict over territorial rights and other issues to resolve the matter amicably on the table and thus avoid carnage, blood-shed, socio-economic and political dislocations, which post-independent African countries have inflicted on themselves. Other things being equal, the Green-tree Agreement and the whole process that led up to the handing over day is a model in the peaceful settlement of disputes in Africa and other developing countries.

### **4.3. Socioeconomic Implications of the Bakassi Conflict Resolution**

We anchor our reflections on the possible socioeconomic implications of the Bakassi conflict resolution on expenditure reducing and switching effects of peaceful settlements, wealth generating effects of international credibility, cross-border activities enhanced by the new found confidence and the need for accompanying measures.

#### **4.3.1. Expenditure Reducing and Switching Effects**

In an escalating border conflict situation, the countries involved generally spend much more on security and military activities. Such military spending often "crowds out" social spending on health, education and infrastructure, a practice that negatively affects the welfare outcomes of the citizenry. As hostilities are scaled down through a negotiated settlement, wasteful

military spending is scaled down as well, hence the expenditure reducing effect of peaceful settlement of border conflicts.

At the same time, there are potentials and incentives to switch from military spending to social sector spending, a situation that will enhance the general welfare situation of the population. In the case of the Bakassi Peninsula dispute settlement between Cameroon and Nigeria, both countries will realise savings in military and associated logistical expenditures. These savings can be more judiciously used to enhance the standards of living of the various populations via infrastructural developments that generate income and employment opportunities.

#### **4.3.2. Wealth Generating Effects**

The peaceful settlement of the Bakassi Peninsula dispute has increased the international credibility of the presidents of Cameroon and Nigeria, as well as that of the economy of both countries. This new found credibility would act as an incentive to both domestic and foreign investors to invest and create employment opportunities, which will provoke income generating activities that are badly needed to reverse the dismal socioeconomic situation of the bulk of the populations of both countries.

In particular, Cameroon can now valorise the oil deposits and promote modern fishing in the Peninsula, especially at a time that the country is reaping the fallouts of the Completion Point of the HIPC (Heavily Indebted Poor Countries) initiative. This will be facilitated both by the peace-dividend and the design of accompanying incentives to pull in trans-national oil and fishing companies. The effective exploitation of these resources will improve Cameroon's trade balance, fiscal revenue and resources for poverty eradication programmes. This is consistent with the three major contributions that investment in oil development is expected to bring to the host country – employment opportunities, foreign exchange earnings, and technology transfer that enhances local capacities (Oruwari and Owei, 2005).

#### **4.3.3. Cross-border Activities**

Due to historical and ethno-linguistic ties between Cameroon and Nigeria, even during hostilities, trans-border trading did not stop, but reduced as some mischievous citizens used the situation to promote their own agendas. It is expected that with the peaceful handing over of the Bakassi Peninsula to Cameroon, socioeconomic activities will be intensified between the two countries. In this regard, it may be to the interest of both countries if more formal trading arrangements are negotiated.

Cross-border activities will be enhanced further if Cameroon and Nigeria push forward their intentions to initiate a number of political and economic confidence-building measures, and to consider the adoption of a treaty of friendship and non-aggression between them. To crown it all, the Bakassi story illustrates the crucial role of multilateral measures, such as the potential for dialogue and conflict resolution offered by recourse to the ICJ. The Mixed Commission also represents a remarkable initiative and can be seen as an excellent model for preventive diplomacy and a precious tool for moving from a culture of reaction to a culture of peace. The activities of the Mixed Commission may well be institutionalised by both countries. Both nations exchange delegations on a regular basis, and the Presidents customarily send messages of congratulations to each other on festive occasions, even at the peak of hostilities in the Bakassi area. A noted example is the visit of a Cameroon delegation to Nigeria in 1995 "in order to canvass support for Cameroun's membership in the Commonwealth".

#### **4.3.4. Need for Accompanying Measures**

Accompanying measures by Cameroon, Nigeria and the international community, as well as other socioeconomic and political developments emanating from the Bakassi conflict settlement are needed to enhance the peace-dividend.

The government of Cameroon needs to carry out important infrastructural developments in the health, education, road, water and telecommunications domains in the Peninsula. This will ease the precarious living conditions of the Bakassians, as well as dislodge possible diabolic intentions of social movements, which may have an incentive to contaminate the Bakassi indigenous people against the virtues of the peace-dividend ushered in by the implementation of the Green-tree Agreement.

The International community is urged to recognise and reward the remarkable level-headedness exercised by Presidents Paul Biya and Olusegun Obasanjo in the Bakassi conflict resolution process. Such a reward, which could take the form of a joint Nobel peace award, may act as a catalyst to encourage leaders of other countries in conflict to opt for peaceful settlements. In addition, the donor community acting individually or in coalition should assist in infrastructural developments in the Bakassi Peninsula. Moreover, as implied by President Obasanjo after the signing of the Green-tree Agreement, an alternative to the peaceful resolution of the conflict would have entailed much more assistance for humanitarian activities in and around the Peninsula from the International Community.

## **5. Concluding Remarks**

The principal goal of this paper was to evaluate the implications of the Bakassi conflict settlement between Cameroon and Nigeria for sustainable peace and economic development. Specifically, the paper: (1) developed a conceptual framework of international conflict dynamics and resolution; (2) examined the geopolitics of the Bakassi dispute; and (3) discussed the implications of the Bakassi conflict resolution for socioeconomic development and international conflict resolution.

The resource-rich Bakassi Peninsula and the 1600 km long border between Cameroon and Nigeria extending from Lake Chad to the Gulf of Guinea has been a bone of contention between the two countries dating back to 1913. The imputation of contemporary border conflicts to the colonial era is based on the observation that colonial powers almost exclusively subjugated and divided Africa, while disregarding the relationship between territorial boundaries and distribution of the various ethnic-groupings. After independence, most of Africa became and is still troubled by the legacy of trying to get originally different indigenous groupings to live peacefully together or the same ethnic-group to live peacefully in different countries. Our analysis indicated that the transformation of the Bakassi conflict to mounting hostilities and military confrontation in the early 1990s is associated with the knowledge that the Peninsula harbours important deposits of oil and gas reserves.

The conceptual framework depicted international conflicts as being shaped by: the nature and size of the booty that would accrue from the conflict, the nature of the relationship between the social classes that constitute the main and secondary actors in the conflict, and the nature of domestic politics in the nation-states that form the bases for the contending parties. As in the case of Bakassi, most conflicts originated before the discovery of petroleum, but became interlinked with oil issues as the importance of oil and related resources as factors of production increases. The drivers of such tendencies were identified as territorial disputes; separatist struggles; and/or factional and dynastic struggles.

Historical accounts indicated that Bakassi Peninsula has always been in Cameroon dating from the 1913 Anglo-German Treaty, but because of neglect and subsequent discovery of oil deposits the area faced a series of claims and counter-claims between Cameroon and Nigeria. Between 1994 and 2002, the entire border dispute between the two countries was before the International Court at The Hague for adjudication initiated by Cameroon. As indicated earlier, the Court delivered its judgement on the merits of the case on October 10, 2002, deciding in part, that sovereignty over the Peninsula lies with Cameroon, and the Nigerian government issued a statement rejecting the verdict of the International Court. However, following the

good office of the UN Secretary General, activities of the mixed commission, and the Green-tree Agreement in New York between Cameroon and Nigeria, Nigeria effectively withdrew its forces from the Bakassi Peninsula on August 14, 2006. This has been described as a remarkable outcome in conflict resolution in Africa.

The effective withdrawal of the Nigerian forces from Bakassi is an indication that it is possible for African nations who find themselves in conflict over territorial rights can resolve the matter amicably on the table and thus avoid carnage, blood-shed, socio-economic and political dislocations, which post-independent African countries have inflicted on themselves. In this regard, the entire process leading to the handing over day is a model in the peaceful settlement of disputes in Africa and other developing countries. Reflections on the possible socioeconomic implications of the Bakassi conflict resolution were anchored on four aspects: expenditure reducing and switching effects of peaceful settlements; wealth generating effects of international credibility; cross-border activities enhanced by confidence building; and the need for accompanying measures to weaken sympathies for social movements.

In assessing issues of border incursions, there is no doubt that the neglect of the border areas contributes to the problem. Cameroonians along the Nigerian border use mostly foreign currency, watch Nigerian TV, listen to Nigerian radio and are cut off from contacts with their own country. Cameroon's new border policy should, therefore, provide for the construction of schools, hospitals, roads, agricultural posts, telecommunications network, pipe-borne water etc. It is perhaps only by carrying out infrastructural developments and effectively occupying border areas that future incursions could be checked and sustainable peace guaranteed. The International community is urged to recognise and reward the remarkable level-headedness exercised by the leadership of Cameroon and Nigeria – a move that could be catalytic in generating other peaceful settlements of international disputes.

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### **CHAPTER 3**

#### ***Sudan after the CPA: Reconstruction in the South and Natural Resources Management in the West***

##### **Oil and Foreign Aid: Curse or Blessing? The Case of Sudan**

Dirk Hansohm

##### **Oil Revenue and Fiscal Policy in Postwar Sudan with a Focus on GOSS Financial Sustainability**

Abraham Matoc Dhal

##### **A Framework for Economic and Social Development in Southern Sudan: Implications for Oil and Water Management and Resource Politics**

Samson S. Wassara

##### **Darfur Crises, the Hidden Picture Striving for Life, Local Institutions and Natural Resources Management**

Buthaina A. Elnaiem



## Oil and Foreign Aid: Curse or Blessing? The Case of Sudan

Dirk Hansohm

### Abstract

*Easily exploitable minerals and foreign aid are resources that are available to the state at no or little cost. They can be used to finance the requirements of poor and post-conflict countries that need to rebuild infrastructure and institutions, demobilise and reintegrate soldiers, and invest in health and education. However, experience has pointed to the danger of a 'resource curse' associated with mineral and aid resources. They may ruin the development chances over a longer term and even plunge the country in civil war, or prolong such a conflict. Policies can be designed to safeguard these risks. However, experience has shown that only few countries have not fallen into this trap.*

*Sudan is a good case study to discuss this 'resource curse' thesis. In an oil boom and with considerable foreign aid after the end of a civil war, it receives considerable foreign aid. Although Sudan's civil conflict in the south clearly predates the discovery of oil, this was a chief factor causing the second civil war from 1989-2005. It can now either prolong the war or be the basis for post conflict reconstruction. At present, there are many symptoms of a resource curse, but the pattern is still open to change. The article suggests policies that may, based on past experience, be safeguards to prevent such an outcome and help to turn them into a blessing.*

'We are poised for a disaster. We will have a new government with no experience at governing. Our institutions are weak or absent. There will be high expectations. Hundreds of millions of dollars of oil money will be coming our way, as well as inflows of foreign aid. It's a recipe for corruption.' Pagan Amum, Party leader Sudanese People Liberation Army (SPLM), quoted in Robert Klitgaard (2004).

## **1. Introduction**

Sudan, Africa's largest country and one of its most troubled countries, is at a crossroads. Emerging from a 16 year long civil war ended in 2005, its future has a big potential, but also faces huge risks. Sudan has vast natural resources, including agriculture and oil, considerable aid commitments from international partners for reconstruction and development at its disposal, but it is also burdened by a heavy heritage of civil conflict to overcome.

The experience of most countries has shown that vast and easily exploitable resources are more likely to hinder than to help growth, development, and poverty reduction. A vast literature has developed and is evolving (Ross 1999 and 2001, Svensson 2000, Collier 2003, Auty and Le Billon 2007, Morrison 2007, Wohlmuth 2007) to demonstrate and explain the 'resource curse' in its economic and political forms. There are also strategy proposals how to counter and overcome this curse and turn it into a blessing (e.g. Auty and LeBillon 2007, Collier et al 2003). However, the empirical evidence is at best ambiguous (Morrison 2007). This article illustrates this discussion with the case of Sudan.

The following section provides a brief overview of the key implications of oil and foreign aid endowments for economic development that are called 'resource curse' as well as possible strategies to counter these negative effects. The following section applies this framework to Sudan. Sub-sections examine oil and foreign aid resources in Sudan, the state of economic and human development, governance/ institutional development, revenues and revenue management, respectively. The final section discusses the question if and how oil and aid resources can be turned into blessings.

## **2. 'Resource Curses' and Ways to turn them into Blessings**

Easily exploitable mineral resources and foreign aid are forms of rent. They have in common that they are available to the state at no or little cost – they create rents, unearned income, at the disposal of the state and/or its agents. Such resources can play a crucial role in closing a finance gap faced by poor countries and in particular by countries emerging from civil war. These countries face generally a huge finance need in order to rebuild infrastructure and institutions, demobilise and reintegrate soldiers, and invest in health and education.

Mineral and aid resources can directly improve the security of the poor. They can support specifically targeted poverty reduction programmes – fund the pro-poor provision of pub-

lic services and expand employment opportunities, expand economic and social infrastructure, transfer assets to the poorest to help them to improve both their skills and income-earning abilities. In general, rents can accelerate growth because they can support higher rates of investment and of the imports required to restructure the economy, lift productivity and sustain rising incomes.

As China and India are on high growth paths, the price of oil has increased substantially and may still rise further. Foreign aid is also rebounding in the form of debt relief and overseas development assistance (ODA). Globally endorsed initiatives as the Millennium Development Goals (MDG) aim specifically to close the finance gaps of developing countries.

However, at the same time, mineral and aid resources can trigger growth collapses, prevent economic policy reform, and result in increased poverty, inequality, and declining levels of human development. They may sustain repressive regimes, feed grievances and lead to re-starts of civil war. This is why many call the phenomenon of high and sudden inflows of mineral and aid rents 'resource curses'.

Unfortunately, such negative outcomes are not only theoretical possibilities, but a likely outcome, as many examples show. Nigeria, Iraq, Congo, Africa's Great Lakes regions clearly illustrate 'the dramatic costs of revenue mismanagement – at the individual, regional and international levels' (Auty and Le Billon 2007: 1). Thus it is important for policy makers, non-state actors (NSA) and international partners to fully understand the various links that lead to the resource curse, in order to design counter policies. This article cannot follow the multi-stranded discussion on mineral and aid resources in its detail. Rather, it outlines some of the salient arguments and evidence that are relevant to Sudan. It relies in particular on the recent discussions of Auty/Le Billon (2007) and Morrison (2007).

It is useful to distinguish two aspects, an economic and a political resource curse (Morrison 2007). The first one refers to the economic impacts. These can be explained in economic terms and are a matter of economic management, i.e. are resolvable technically. The political curse, however, is a matter of political economy and refers to the underlying incentives of the state and its executives. As such, they cannot be solved by technocrats, but needs the involvements of non-state actors (NSA), lobbying in the interest of the disadvantaged, possibly supported by external actors.

Economically, the inflow of sizeable mineral and aid rents often leads to currency appreciations. Distortions in the economy make the traditional tradeable sectors (agriculture and industry) uncompetitive and marginal in the export basket, leading the economy away from its underlying comparative advantage ('Dutch disease'). High resource income is also likely to result in inflationary pressures. These impacts are all the more serious, the higher and more sudden they are, as developing countries have typically highly inflexible economies. The importance of mineral and aid rents depends not only on the extent of a country's dependence on commodity revenues, but also on the price of those commodities, the level of foreign aid, and the degree of government interventions to adjust prices (typically fixing artificially high exchange rates). Auty and Le Billon (2007) estimate their typical level as 1/3.

Both oil and foreign aid are susceptible to high degrees of uncertainty that may plunge the country in large external shocks. The price of oil cannot be forecasted reliably and is often due to large movements up or down. Foreign aid is hardly more predictable, as it is subject to the domestic voters in aid giving countries that is influenced by unforeseeable events. The political resource curse occurs through the often tight control of the revenue flows by government actors. High-rent countries face pressure to spend the proceeds from natural windfalls quickly, particularly on behalf of powerful interest groups that are eager to see immediate tangible benefits. This is often not primarily targeted at the poor. But governments find more immediate and lucrative rewards from capturing and redistributing commodity revenues than from encouraging long-term wealth creation. Most importantly the appreciation reduces the competitiveness of the traditional export sectors like agriculture and small scale industry, where the livelihood of the poor often bases on. Both low rates of taxation and high consumptive spending generally dampen pressures for democracy (Ross 2001). In non-democratic systems mineral and aid resources tend to be obstacles to democratisation. This is because political representation and accountability requirements are associated with broad taxation. In contrast, rentier states are not highly, if at all dependent on tax payers that could demand accountability – 'no taxation, no representation'.

In more general terms, large resource sectors tend to dampen the quality of governance. Even high-income economies have difficulties to manage such high degrees of 'loose' revenue. But as quality of governance is positively related to income, low income countries have particular problems. Mineral countries tend in general to be more authoritarian.



Rentier states also tend to be more corrupt, as they are less subject to control and scrutiny by its citizens. Aid has also not shown to be an effective means to reduce corruption: Alesina and Weder (2002) present evidence that corrupt countries do not seem to receive less aid. Rather, there is a reverse causation: Empirical evidence shows that an increase in aid increases corruption. Foreign aid also does not improve growth by improving the quality of institutions. Lastly, mineral oil exploration also tends to imply high environmental costs. During the Cold War period, foreign aid has been a similarly free resource to Third World regimes as mineral rents, as it was often given primarily for international political reasons, and independent of the quality of governance. Since 1990 this is changing and foreign aid is given by many Western countries explicitly as a means to improve governance and accountability. However, this has turned out to be much more difficult than anticipated.

As Morrison (2007) shows, there is likely to be a trade-off for donors between giving aid that can help to reduce poverty (but reduces the pressure for democracy) and promoting democratisation. Even in a 'best scenario' of institutional safeguards in aid allocation, both mineral and aid resources tend to diminish the chances for democratization. Furthermore, there are potentially high costs imbedded in foreign aid. Despite intentions and declarations, there is often little aid coordination. Aid requirements and administration generally result in high demand for scarce administrative skills and capacities. These links have in the experience of most mineral and aid dependent countries turned their apparent luck into curses. Are these curses 'natural' and cast in stone, or can they be overcome by appropriate policies? A final judgement is still out. Principally, the economic curse can be turned into a blessing through appropriate revenue management. The political curse can be addressed by strengthening the underprivileged groups who must press for a longer-term perspective that saves much of the windfalls gains and counters the uncompetitiveness of those tradeables where the countries have a comparative advantage. An underlying key condition for addressing the resource curse successfully is a high quality of governance and institutions, in particular a technocratic and meritocratic way of political leadership.

The following institutional underpinnings of market economies can be distinguished (Rodrik 2000):

- Clearly delineated system of property rights
- Regulatory apparatus curbing the worst forms of fraud, anti-competitive behaviour, and moral hazard
- A moderately cohesive society exhibiting trust and social cooperation
- Social and political institutions that mitigate risk and manage social conflicts
- Rule of law
- Clean government

From this, six aspects of governance are important:

- Voice and accountability
- Political instability and violence
- Government effectiveness
- Regulatory burden
- Rule of law
- Graft

These are the basis of many of the current governance indicators. Unsurprisingly, the governance indicators for resource rich countries tend to be low. A clear relationship has also been established between level of development and quality of governance and institutions: the higher the level income, the higher the sustainable quality of governance is likely to be. A sustainable level of good governance is exceptional for poor countries. Norway, ranking as number one on many indicators of human development, is managing through strong institutions, careful revenue management, relatively slow oil development, strong domestic absorption capacity. It has a Government Petroleum Fund to minimise economic distortions of oil booms and stockpile wealth for future generations. As one of very few developing countries, Botswana has managed to use diamond wealth and foreign aid to turn a very poor country to a middle income economy by sustained high growth. At independence the country initially enrolled foreign expertise to develop its capacity, emphasised training and education, and created a stringent anti-corruption legal framework. Government captures and publicly accounts for a sizable share of diamond revenues. It has broad provision of public services, a relatively open democratic system, strong emphasis on meritocracy and integrity in its bureaucracy.

Unfortunately, Botswana is an exceptional country. Recent analyses show a clear negative relationship between oil and democratization. The latter is not only worthwhile in its own right, but also an effective check of abuse of resources. Many other studies have shown the inherent difficulties to use foreign aid as a means to enhance transparency and democracy. On a technical level, there is wide agreement about the elements of a system to counter negative effects of mineral or aid resources (Auty and Le Billon 2007). The problem is that there are often insufficient incentives to enforce such systems.

On a technical level, the way to counter the 'resource curse' is to improve the institutional governance. In particular, it is important to improve the governance of revenues, as a basis to establish high standard revenue management laws. They generally address the three main areas of rent collection, administration, and allocation. Within each transparency, accountability, representation and equity are major issues in order to avoid rent capture by narrow interest groups. A comprehensive scope, precise rules, insulation of oil revenues, secure conditions of parliamentary scrutiny and budgetary decision making are the key. Independent and credible oversight, auditing, and performance evaluation are also vital.

Revenues need to be stabilised and a substantial part should be saved. For this the rent is placed within a fund managed by the central bank, sizable windfalls invested offshore, investing a fraction in alternative wealth generating assets. A capital development fund and a transparent fiscal system should be established (Auty and Le Billon 2007, also for the following). A related instrument is the aid trust fund, a finance instrument through which funds are collected from donors and allocated to recipients in a supposedly independent fashion. In practice, however, such funds have often mirrored resource revenue management funds in terms of political and allocation biases. They often retain close ties with donor interests, such as political leverage, commercial objectives, and preferential home-country contracting.

Improving public sector expenditures over the long term is related to effective capital development and revenue stabilisation funds. External agencies can intervene by jointly building up institutional capacity and using such mechanisms as loan conditionality and incentives to improve transparency and accountability. In this framework, macro-economic policy should seek to create an enabling environment for investment by balancing public expenditure with revenue, maintaining the external (trade) equilibrium balance and correcting market failure through the provision of infrastructure, education and health

facilities, and environmental policies. Recently, international and domestic revenue transparency initiatives have gained prominence, based on the insight that a lack of transparency not only increases the risks of corruption and embezzlement, but also of inequity, distrust and false expectations. Three main components of transparency are important: revenue disclosure, transparent governance, auditing and reporting.

### **3. Sudan: The Basis for a Resource Curse**

Sudan is a textbook case of a natural resource based African country in crisis with low incomes and human development indicators. The country had also the continent's longest civil war. As the first sub-Saharan country becoming independent in 1956, it was a creation of Turkish/Egyptian and British colonial rule with artificial borders cutting across ethnic groups and economic systems. Its multifaceted conflict lines along social, economic, ethnic, urban/rural lines erupted into civil war between 1955-1973 and again 1983-2005. The country only enjoyed elected governments between 1956-58, 1964-69, and 1986-89. All three democratic governments were toppled by military coups d'état.

Independent Sudan experimented with various development approaches. In broad terms, five phases can be distinguished: traditional development planning in the 1960s, regional Arab economic integration with massive investments in agriculture in the seventies, conventional structural adjustment in the eighties, Islamic economics in the 90s. Since 2005 the country is in a phase of post-conflict reconstruction and development. Although some of the economic policy changes were triggered by policy regime changes, most cut across changes of government.

Although the two civil wars were fought between central government and southern rebels, arguably the key conflict line is between the capital urban elite and the marginalised rural areas in the West, South and East. Despite the rise of urban poverty, the high and continuing urban-rural discrepancy is the central underlying cause for Sudan's predicament, rather than religious or cultural cleavages. The most recent civil war ended with a long negotiated and internationally guaranteed Comprehensive Peace Agreement in 2005. However, a conflict in the Western Darfur region is continuing, while the end to a rebellion in the East was only recently negotiated. Foreign aid has always played a role. Since this decade, oil exports are important and are now the basis of an economic boom. As a basis for discussing their effect, profiles of nature and substance of oil and aid in Sudan are provided next.

### **3.1. Sudan's Oil Resources**

Oil was discovered in the 1970s, mainly in the South and particularly in the border region between North and South. However, as often, these regions did not benefit. In fact, the discovery of oil added to the basic pattern of marginalisation of the periphery. The alteration of the borders of the South in 1983 contributed directly to the start of the second civil war. Although oil production for export was planned for the 1980s, the civil conflicts prevented large-scale production until 1999. Currently, about 250,000-300,000 barrels are produced per day, of which around three-quarters are exported. Sudan's total proven oil reserves were estimated to amount to 1.6 billion barrels in 2005 (DfID [Department for International Development] 2007). However, actual reserves are expected to be a lot larger, as the geology of Sudan is conducive to oil and the oil discovery rate from exploratory drilling has been high.

Nevertheless, although Sudan is now Africa's third biggest oil producer, its per capita production of 5.5 barrel/year is only a fraction of the classic oil rich countries as Saudi Arabia or Libya (more than 60). At present, Sudan is a net exporter of gasoline and liquid petroleum gas and a net importer of diesel and aviation fuel, but should be largely self-sufficient when a new refinery is completed in 2009. While total oil production has not increased significantly in recent years, the international oil price has more than doubled since 2002, resulting in rapid growth in oil's contribution to total output, exports and government revenues. Although oil has doubled its share of GDP in the last four years, it still accounts for a relatively small share of total output in comparison with agriculture.

The oil sector is much more important as a source of foreign exchange and government revenue, particularly for the GOSS (Government of Southern Sudan). The oil revenue transferred by the Government of National Unity (GNU) to the GOSS accounts for virtually all GOSS domestic revenues. Federal government oil revenues account for just over half total federal government revenue. The CPA recognises the importance of good governance of resource management, in particular oil. Under the terms of the CPA, net oil revenue is defined as net revenue derived from exports of GNU oil and from deliveries of GNU oil to refineries. At the start of the fiscal year, a benchmark production figure and an oil price are agreed by the GNU and GOSS. Any revenues accruing from production or price above the benchmark are deposited in an Oil Revenue Stabilization Account (ORSA). This is a locked sub-account for the GNU at the Bank of Sudan which is con-

trolled by the GNU Ministry of Finance, although funds kept in the account are available to both GNU and GOSS in proportion to their share of total oil revenue. The account accumulated a significant amount of funds over 2002-05, equivalent to 2% of GDP at end 2005. However, there were substantial draw-downs from the account in late 2006 to finance the GNU and GOSS fiscal deficits and at end October 2006, there was only US\$ 9.3 million left in the account. At least 2% of net oil revenue is allocated to the oil producing state/region in proportion to the output produced in the state/region. Remaining revenues from oil produced in the South are divided equally between the GNU and GOSS.

Exploration and Production Sharing Agreements (EPSA) define the relationship between the GNU and an oil company. EPSAs are not available to the public but the standard EPSA divides oil production into “cost oil” and “profit oil”. Cost oil enables the oil company to recover fixed investment and operating costs and a reasonable return on the investment, by using various “uplift” mechanisms, whilst the remaining production is considered to be profit oil. Equipment used by the oil companies is exempt from customs duties, while oil exported is exempt from export taxes. The GNU usually takes 70% of profit oil and 30% goes to the oil company. With recent high oil prices, the share of profit oil relative to cost oil has increased with the result that the GNU’s share of total oil receipts has also increased. Comparing crude oil export receipts with GNU crude oil revenues, the GNU share of export receipts averaged about 60% over 2003-05, which is in line with international norms for oil profit sharing arrangements. Despite the fact that EPSAs are a GNU responsibility, the GOSS has also been awarding concessions to oil companies in areas under GOSS control, which is a source of conflict.

But in practice, governance of the oil sector is highly problematic. The sector lacks transparency and needs institutional reforms affecting oil production, investments, pricing, and transfers (World Bank 2007b: 1-22). Nearly all aspects of oil sector governance and operations are dominated by the GNU Ministry of Energy and Mining (MEM). While the precise ownership of the various public sector corporations in the oil sector is unclear, the MEM operates in the sector mainly through the Sudanese Petroleum Corporation (SPC). Sudan’s interests in oil licenses are held through the state-owned Sudapet company, a subsidiary of the MEM. Sudapet owns between 5-15% of each license. The oil industry is vertically integrated and the GNU plays a major role at every stage of production through the state-owned SPC. Although the MEM is notionally responsible for the regulation and

supervision of the sector, the SPC and MEM are effectively the same organisation and the GNU's regulatory functions are not independent of its commercial activities in the sector. Actually, the GNU Ministry of Finance is responsible for taxation and regulating and monitoring the financial flows of the industry.

Transparency is not helped by the fact that the foreign state-controlled companies operating in Sudan (e.g. CNPC [Chinese National Petroleum Corporation] and Petronas) are less transparent than publicly-listed oil firms in Europe or North America. As a result, because of the shortage of reliable industry data about local exploration and production, it is even more difficult to assess prospects for the country and also to verify production and revenue data. SPC is a fully government-owned entity. The ministry and SPC appear to be effectively one and the same.

SPC has reported a share of 50% in Sudapet, and it is not clear where the balance is held. SPC does not publish an annual report, and provides accounts to parliament based on an obsolete government budget accounting system (i.e. as if it was a ministry), rather than as a corporate entity. Although Sudan committed to produce and publish the 2004-05 financial audits of Sudapet by Sept. 2006 under a SMP (Staff Monitored Programme) with the IMF, this did not happen. Volatility and uncertainty in the oil sector – usually everywhere on prices, in Sudan additionally on volumes - aggravated by unusual lack of transparency, both within government and relation to outside partners and advisors. As part of the Wealth Sharing protocol, a core element of the CPA, it was agreed in 2005 to create the National Petroleum Commission (NPC), which is co-chaired by the GNU President and President of GOSS. Other members include four each from the GNU and GOSS, and up to three non-permanent members from each of the oil producing state or region. The main functions of the NPC are to formulate and monitor public policies, guidelines and programmes for the oil sector; and negotiate and approve all contracts for the exploration and development of oil. However, the commission has not yet proven to be effective.

The GNU and GOSS budgets predicted high oil sector growth in 2006, primarily as a result of a planned increase in production to 492,000 barrels per day. However, this increase was not realised due to delays in the opening of new fields. As international oil prices did not change much from the 2005 average, actual 2006 export receipts and government revenues are expected to be similar to the levels achieved in 2005. The lower than expected oil revenue was partially compensated for by drawing funds out of the ORSA, but GNU and GOSS expenditure cuts were also required in 2006.

The oil industry in Sudan is also criticised for its negative impact on the environment and on communities in oil producing areas. Oil sector activities resulted in the displacement of people and the loss of land, although it is sometimes difficult to distinguish between displacement as a result of the activities of oil companies and broader conflict-related displacement in many oil producing areas (e.g. Coalition for International Justice 2006). The location of many oil wells on the disputed North-South boundary has also tended to encourage the GNU and oil companies to exploit oil resources as quickly as possible with limited attention being paid to the needs of communities or the environment (DfID 2006). The CPA stipulates that communities should be consulted on the development of oil resources on their land and should be compensated for the loss of land and other rights. Through their state/regional governments, they should also have a say in the negotiation of oil contracts and benefit from oil revenues. Whilst oil companies have been providing community facilities in some areas, these tend to be tokenistic and very few affected communities have received any compensation for the loss of land and other rights.

The failure of the NPC and the Northern and Southern Land Commissions to function has meant that communities and state governments have very little voice and influence on such issues to date. Oil company activities are controlled largely by the GNU Ministry of Energy and Mining under the terms of existing EPSAs which pay limited attention to social and environmental issues, although the Ministry of Energy and Mining is in the process of strengthening its environmental monitoring capacity. The generally negative image that the oil industry has in Sudan is related to the lack of publicly available information on oil sector activities. There is limited information available on the activities of SPC/Sudapet and operating companies, EPSA terms, oil production and the amount and use of oil revenues. While both the GNU and GOSS have shown an interest in adopting the best practice standards proposed by the Extractive Industries Transparency Initiative, they have yet to start the implementation process. However, from July 2006, the GNU has been publishing monthly information on oil production, export receipts, refinery sales, GNU oil revenues and transfers to the GOSS on the Ministry of Finance and Bank of Sudan websites.



### **3.2. Foreign Aid to Sudan**

As Africa's largest country and strategically important during the Cold War, Sudan received high amounts of aid. Until 1969 Sudan was pro-West and the US saw the country as a bulwark against communist Ethiopia and provided substantial support. From 1969-71, Sudan had a brief encounter with the Soviet Union and received Eastern support. After 1971, Western aid returned, but Sudan also received increasing aid and investment from the oil-rich Arab countries, who saw Sudan as an important partner as a future supplier of food. The third military coup in 1989 was followed by a high degree of international isolation, but the Arab investment and aid remained, save for a period after Iraq's invasion of Kuwait 1991, when Sudan belonged to the few countries aligning themselves with Saddam Hussein. Today, foreign aid is an important contribution to the reconstruction and development effort in the South, but not so significant in the North. Furthermore, the Darfur crisis has a twofold negative impact on the International Cooperation Partners (ICP) engagement in Sudan: redirection of large resources to humanitarian assistance and less engagement.

The 2005 CPA reached between the Government and the rebel movement, at war since 1983, with strong involvement of both neighbouring and Western countries, was a landmark in Sudan's history. It raised high hopes that at last the basis for broad based development was laid. The CPA was not only signed by all these other countries involved, in addition to the previous belligerents. Those ICP also committed themselves to large provision of finance for reconstruction and development. Although the majority (2/3) of financing needs is to be financed from domestic sources – because of the country's wealth in oil resources -, it was agreed that in particular in the beginning the ICP would play a stronger role in Southern Sudan because of the time needed for domestic build-up and mobilisation. In phase 1 (2005-2007), the total financing needs were estimated at \$7.9 billion (\$4.3 billion for GNU and \$3.6 billion for GOSS), and \$2.6 billion (\$1.2 billion for GNU, and \$1.4 billion for GOSS).

Parallel to the CPA, a Joint Assessment Mission (JAM) with GOSS, SPLM, World Bank and United Nations was done in 2004-05. It produced an ambitious document that was regarded and agreed as the new development strategy: the Framework for Sustained Peace, Development and Poverty Eradication (JAM 2005). Based on the 'unprecedented window of opportunity to turn the devastation of years of war, displacement, and underdevelopment into a new era of peace and prosperity' (JAM 2005: 9), the strategy envis-

aged sweeping reforms of governance, the creation of new institutions, a significant capacity building at all levels of government, the concept for a Poverty Eradication Strategy, and reaching the MDG as a framework. A key element to address the regional inequalities is a substantial degree of decentralisation. Important roles were envisaged for community-driven rehabilitation and a vibrant civil society. The international community was to provide financial support. The parties also agreed on a monitoring framework. Over a period of 12 months, the JAM exercise was characterised by a high degree of government ownership, but also by civil society ICP engagement.

The design of the aid programme was led by United Nations and World Bank and reflects 'best practices' of foreign aid for post-conflict countries and is coordinated primarily by the World Bank. Thus it is a good example to examine its role. Indeed, an important lesson from previous approaches to post-conflict reconstruction taken and applied is the need to monitor systematically the effort of aid and to take into account the characteristics of post-conflict countries. A good overview and evaluation of the unfolding effort is in this context taken by the report on Piloting of OECD/DAC (Organisation for Economic Co-operation and Development/ Development Assistance Committee) "Principles for good international engagement in 'fragile states'" (OECD/DAC 2005). These (draft) principles are: Take context as a starting point, do no harm, focus on state-building as central objective, prioritise prevention, recognize links between political, security and development objectives, promote non-discrimination as basis for inclusive and stable societies, align with local priorities in different ways in different contexts, agree on practical coordination mechanisms between international actors (mechanisms existing, act fast ... but stay engaged long enough to give success a chance, avoid pockets of exclusion.

Sudan was a pilot to test and revise draft principles. Focus of an analysis in 2006 (Haslie and Borchgrevink 2007) were donor coordination mechanisms, support for state building, and implementation of CPA. The JAM strategy is advanced as compared to previous ones. It is based on stronger analysis, latest international experience, and broad ownership. A number of innovative mechanisms are tried: In addition to the JAM process, these include two Multi-Donor-Trust Funds (MDTF) on the national level and for the South, government-ICP working groups following the JAM process, working budget sector working groups (in the South) in order to maximise contribution of ICP funds to government plans, five ICP established a joint donor office in the South. Many ICP channel

some or all of their Sudan funds to the MDTF. Attention is also given to the special circumstances of conflict and post-conflict countries (e.g. Haslie and Borchgrevink 2007). However, JAM also lacked prioritisation and did not base systematically budgets on the analysis. Donor coordination also remained in practice often limited.

After two years the balance in reconstruction and development is disappointing in comparison to the very high expectations when the CPA was signed. At this point in time, there is disillusionment in government, beneficiary and ICP circles. Coordination and coherence problems between government institutions and between government and ICP are substantial (in particular GNU and GOSS), adding to the internal bureaucracies of government and ICPs. According to an assessment by the Ministry for International Cooperation (MIC) 2007, over the past two years only 7.2% of funds pledged to MDTF were spent by implementing agencies (which does still not equate reaching the beneficiaries, not to speak of the outcomes achieved). The ministry's assessment starts from the agreement that although the majority of resources is to come from government, ICP resources need to be frontloaded, i.e. mainly spent in the beginning of recovery. MIC presents the following figures on the aid performance by ICP: For the MDTF-North, there were pledges of \$195.1, funds available of \$113.7, agreements signed of \$89.6, funds transferred to implementing agencies of \$13.2, and expenditure by implementing agencies of \$7.2. GNU implemented 21% of JAM commitments. In total, 60% of JAM commitments were not committed or paid, 21% funds available but not utilized, and 19% implemented. MICs conclusion was that reality falls far short of partnership commitments of Paris declaration, especially when it comes to disbursing aid in a timely and predictable fashion. Problems related to disbursements to implementing agencies identified include institutional capacity, procedures, counterpart funds, and conditionalities. Problems related to disbursements by implementing agencies identified include procedures, institutional capacity, and government bureaucracy.

A qualification of the figures is the fact that a sizable part of the expenditures was for humanitarian, rather than recovery and development funds. The ministry's first priority is to become able to track aid flows, i.e. providing timely, transparent and comprehensive information on aid flows for accountability, as stipulated in the Paris declaration that Sudan signed in 2006.

This is an extremely important exercise for both government and donors. It should inform further discussion. But delivery of aid is not equal to effective aid. So these figures are

only the basis for an analysis of delivered aid. The review of MIC is only a small first step of monitoring foreign aid, just covering aid disbursements, not the effectiveness and efficiency of spending agencies, not to speak of outputs and outcomes.

While no such comprehensive review has yet been undertaken and an overall analysis remains to be seen, it appears that the difficulties of implementation have been vastly underestimated. More importantly, at the cost of ownership, the conflict dimension and the political-economic implications, and the internal contradiction between the desire to deliver quickly a ‘peace dividend’ and developing local capacities have not been given the attention they need. The reported results point also to unrealistic assumptions of JAM with respect to difficulties of translating funds to delivery. They further highlight the fact that the Paris declaration principles on aid effectiveness on which JAM and MICs analysis are based are not sufficient in Sudan – this analysis must be complemented by the realization that Sudan is a ‘fragile state’. Strengthening government capacity to analyse aid delivery is a key improvement – it promises high returns. But it is only the first step in a process leading to government as being in driver seat, where donors finance government plan, where government coordinates donors. But this will not happen without genuine partnership. Two building blocks for this process would be better government coordination of its own agencies and more coordination of donors among themselves.

The critique of Haslie and Borchgrevink (2007) is that top down institution building - without building legitimacy and civil society – pay too little attention to the GNU-GOSS relationship, and also not enough attention to short-term peace dividend and CPA implementation, limited the success of donor engagement as yet. As well, institutional capacity building was given a backset at cost of quick delivery and/or setting up of parallel structures by ICP. However, these statements have to be seen in a context where the enthusiasm of Sudan’s ICP to assist the vast reconstruction effort has been dampened by the conflict in Darfur. Foreign aid to Sudan did of course not start with its post-conflict reconstruction, but has a very long history – indeed one of the longest in sub-Saharan Africa (SSA), as Sudan was its first country to gain independence in 1956. Until the end of the 1980s, Sudan with its key strategic geographical position at the Red Sea, a major oil route and next to Egypt, the largest Arab country, and Ethiopia, the major communist bulwark at the time was also one of the major proxy states in the cold war. In addition, Sudan was seen as a potential major supplier of food or other agricultural exports.

Accordingly, huge sums of foreign aid flowed to Sudan and some interesting observations were made then. Coordination of aid was a problem then as well. Whittington and Calhoun (1988), tasked to implement an ICP management and coordination programme in the ministry of finance, analysed the difficulties of such an effort. While the World Bank cited Sudan as a country that has made significant progress in improving donor coordination (IBRD [International Bank for Reconstruction and Development] 1984:42), quoted by Whittington and Calhoun 1988: 295), they found that the problem of donor coordination is much more serious and intractable than is commonly realised. Whittington and Calhoun initiated a project funded by USAID (United States Agency for International Development) to work with the Ministry of Finance and Economic Planning (MFEP) to establish microcomputer-based decision support and management information systems – to create a data base of all ongoing, planned and completed development projects in Sudan. Whittington and Calhoun (1988) describe the failure of the donors to assist in any meaningful way in providing the information required.

Reasons for donors' failure to co-operate are provided by them:

1. Donor bureaucracies are not structured to promote aid co-ordination.
2. Donors' perceptions of their external planning environment, mistrust and suspicion in donor community, donors' understandable scepticism in an environment where data are scarce and typically treated as proprietary, realistic fear that government and sponsoring ICP agency would have greater access to project data base.
3. All donors want to coordinate, but nobody wants to be coordinated.

Sudan's post-conflict aid experience shows so far that these sentiments and the problems of aid coordination have not vanished.

### **3.3. Sudan's Economic and Human Development**

Sudan was a typical poor agricultural producer (more than 90% of its exports), until oil was discovered in the late 1990s and is processed. This turned around the economy. Oil is now the most important export good (85%) and also the most important contributor to government revenue. Other important exports are cotton, sesame, livestock, groundnuts, gum arabic and sugar. Due to the oil exports, China is now the most important export destination (70%), followed by Japan and Saudi Arabia. Major imports are food, manufactured goods, refinery and transport equipment.

The following table shows structural changes of the Sudanese economy since 1960. The agricultural sector declined steeply between 1960 and 1985/86. In the following decade it regained most of its lost GDP share, much of it in subsistence agriculture. The mining sector that includes oil, only gained importance since 2000, but its overall importance remains much more limited than in classical oil producing countries. The manufacturing sector that includes small, informal and traditional industries, was in its heyday in the early 1970s. It lost much of its importance long before the oil discoveries, but received an additional decline since then. Despite a current building boom, the building and construction sector was larger in the early days. Commerce and transport have remained important sectors ever. Government services have shrunk as compared to the time of independence, in particularly since the early 1970s, a brief period of socialist experiments. The services sector as a whole has grown from 29% to 43.6%.

**Table 1: Structural Changes of the Sudanese Economy (1960-2003)**

	Agri- culture	Mining & Quarry- ing	Manu- fact- uring & Handi- crafts	Building and Con- struction	Commerce Restaurant & Hotels	Trans- port & Communi- cation	Finance Insurance Real estate & Business Services	Govern- ment Services
1960	52.6	0.1	4.3	5.7	6.2	6.8	3.2	7.1
1965	43.2	0.1	5.4	4.6	13.3	6.4	3.4	9.4
1970/71	34.4	0.3	9.5	3.6	17.7	8.0	3.6	18.6
1975/76	34.0	0.3	8.4	4.8	17.1	10.4	7.5	9.3
1980/81	32.1	0.1	8.0	5.4	14.4	11.4	10.5	10.0
1985/86	31.1	0.0	8.0	5.0	21.6	7.0	12.0	7.0
1990/91	41.3	0.1	5.2	5.2	21.2	7.7	8.6	4.0
1994/95	44.4	0.3	6.8	4.2	18.0	11.5	5.6	2.3
2000	35.8	7.1	6.8	3.4	16.9	11.6	8.3	4.1
2003	37.5	8.0	5.6	4.0	17.5	9.0	9.4	3.7

Source: Central Bureau of Statistics (2007)

Sudan's current GDP is estimated at US\$ 36 billion (2006) with an estimated GNI per capita of US\$ 530. Sudan witnessed highly fluctuating growth rates (following figures from Global Coalition for Africa (GCA; 2004)). During 1965-69, as early conventional

development strategies were tried, Sudan had negative growth. During the 1970s, when large investments into agricultural modernisation took place, growth rose to an average 2.5% per annum growth higher than average Africa, but lower than comparable countries, in the assessments of the GCA. In the stabilisation phase of the 1980s, growth fell again to an average -0.2% p.a. Islamic economics of the 1990s witnessed higher growth of 2.8% p.a. Recent years, stimulated by oil, supplemented by peace, witnessed higher growth: It approximated 10%, while in 2007 it is estimated at higher than 13% - the world's highest growth rate. For the overall period of 38 years, Sudan achieved an average of 1.3% of annual growth, as compared to 0.06% of sub-Saharan and 0.7% for all Africa, certainly lower than possible with Sudan's resources.

Sudan is characterised by wide-spread poverty and skewed wealth inequality. Human development rankings (education, health, social infrastructure) are very low: the country is at rank 141 (of 177 countries) on the country list (2003; UNDP (United Nations Development Programme) 2006). The following table shows the key determinants of human development, i.e. life expectancy and adult literacy for health and education respectively, with the aggregate measure of the human development index (HDI). The figures show a steady improvement since 1975 (since when then HDI is calculated). As Sudan is not (yet) strongly affected by the HIV/AIDS epidemic, life expectancy does not show the downward trend.

**Table 2: Sudan's Health and Education Outcomes (1975-2004)**

	1975	1980	1985	1990	1995	2000	2004
<b>HDI</b>	0.3450	0.376	0.396	0.427	0.465	0.497	0.516
<b>Adult Literacy Rate/ %</b>	29.1	34.2	39.7	45.8	51.5	57.7	60.9
<b>Life Expectancy/ Years</b>	46.5	49.0	50.9	52.5	54.4	56.0	56.5

Source: UNDP (2007)

Progress has been made in primary education. The net enrolment ratio was 53% and 41% for the years 2006 and 1991 respectively. Adult and youth literacy levels were 45.8% and 65% in 1991 respectively. The figures for 2006 are 60.9% and 77.2% respectively. All these human development indicators show stark regional differences with very low levels for rural, but especially for the South and for conflict affected areas. Recent surveys underscore widespread poverty in the country. Government estimates poverty in the range

of 50-60% in the north of the country and much higher in the South (JAM [Joint Assessment Mission] 2005, GNU [Government of National Unity] 2007). It is concentrated in rural areas, although it has also become common in urban areas due to internal displacement. Hunger and malnutrition are widespread, although there has been a slow improvement. The prevalence of underweight children under five years is 29.6% (improved from 33% in 1990). The population below the minimum level of dietary energy consumption is 26% (improved from 31% in 1990).

Openness to trade is a vital condition for sustainable growth, in particular for small economies that are necessarily highly import dependent. It can be measured by the shares of exports and imports in the GDP. Although Sudan's openness has increased over recent years (to 18 and 28% for exports and imports respectively in 2005), it is still substantially lower than that of the region – sub-Saharan Africa (33 and 35%), Middle East and North Africa (26 and 36%), low income countries (24 and 27% [in 2004; World Bank data base]). Sudan receives high streams of capital and increased its gross capital formation substantially between 2000 and 2005 (18 and 23% respectively). These are higher than in sub-Saharan Africa (19%), but remain well below those of Middle East and Northern Africa (26%), and low income countries (27% [in 2004]). In Sudan, the real effective exchange rate (the nominal exchange rate adjusted for inflation) has risen strongly since the mid 1990s, with much of this appreciation taking place in 2005. Although average inflation has been relatively stable at around 8% since 2002, the price of non-tradeable goods (e.g. housing, water, electricity) has risen at a higher rate. Rapidly rising expenditures and over-optimistic revenue forecasts moved the GNU budget from surplus in 2004 to deficits in 2005 and 2006. Some economists estimate an overvaluation as high as 40% (Ibrahim el Badawi, oral information). The appreciation of the Sudanese currency has undermined competitiveness of Sudan's principal non-oil exports such as livestock, gum Arabic, sugar, horticulture, oilseeds and cotton (Suleiman 2006, World Bank 2006a+b). However, structural factors as productivity, taxation, infrastructure may be as or more important than the appreciation.

### **3.4. Sudan's Institutions and Governance**

Governance indicators give a good sense of the quality of institutions. As argued above, this is a decisive condition for successful management of a resource based economy,



countering the ‘resource curse’. Little attention has been given as yet to the analysis of institutions in Sudan (Ali 2005), although the resource curse phenomenon is recognised. The following presents the most prominent governance indicators available for Sudan. Unfortunately, Sudan’s governance indicators are among the world’s most alarming. The following table represents the presently most comprehensive set of governance data, clustered in 6 areas. They follow the classification by Rodrik (2000) reported above. These composite indicators are secondary data, a statistical compilation of responses by enterprises, citizens and expert survey respondents in industrial and developing countries, as reported by different survey institutes, think tanks, non-governmental organizations, and international organizations.

**Table 3: Sudan’s Aggregate Governance Indicators in Comparison (2006)**

	Voice & Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
<b>Sudan</b>	3.8	2.4	11.8	12.2	6.7	9.7
<b>Chad</b>	9.6	5.8	7.1	12.7	6.2	7.8
<b>Uganda</b>	30.3	13.5	34.6	46.8	39.0	26.2
<b>Kenya</b>	43.8	15.4	28.0	44.9	15.7	16.0
<b>Ethiopia</b>	16.8	5.3	31.3	21.0	30.0	36.9
<b>Eritrea</b>	2.9	20.7	9.5	2.4	14.8	54.4
<b>Congo</b>	5.8	1.0	1.9	6.3	1.9	2.9
<b>Zimbabwe</b>	6.7	13.9	3.3	1.5	1.4	3.9
<b>Egypt</b>	17.8	20.2	38.9	35.1	53.8	42.2
<b>Libya</b>	1.9	55.3	21.8	7.8	26.7	19.4
<b>Central African Rep.</b>	18.3	7.2	5.2	9.8	2.9	11.7
<b>Nigeria</b>	26.0	3.8	16.6	19.5	8.1	5.8
<b>Botswana</b>	66.8	93.3	73.9	65.4	67.1	78.2
<b>Norway</b>	98.6	91.8	98.1	90.7	99.0	96.6
<b>USA</b>	83.7	57.7	92.9	93.7	91.9	89.3
<b>MENA</b>	26.2	34.8	46.5	44.5	49.7	51.1
<b>SSA</b>	32.7	35.6	27.2	27.4	28.8	30.3

Source: Kaufmann et al. (2007)

To set Sudan in context, most recently available data (for 2006) are also given for neighbouring, other post-conflict or mineral based countries, as well as the regions Sudan

is part of MENA (Middle East and Northern Africa), SSA and industrial countries, of which Norway often has the best governance data. 0 is the lowest possible quality of governance, while 100 is the highest possible value.

Sudan is ranking considerably worse than both the MENA and SSA regions for all indicators. With few exceptions, ranks are also worse than those of neighbouring countries. The worst indicators are reported for voice and accountability, political stability, and rule of law.

The following table shows the development over time in Sudan, since this data base was established (1996).

**Table 4: Aggregate Governance Indicators for Sudan (1996-2004)**

	Voice & Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
1996	1.0	1.4	2.8	3.9	2.4	7.3
1998	2.9	5.3	10.4	8.3	2.9	15.0
2000	2.9	1.9	9.5	9.8	3.8	20.4
2002	4.8	2.4	9.0	11.7	9.5	13.6
2003	4.8	2.4	9.5	11.7	4.8	4.4
2004	4.8	4.3	8.5	13.7	5.2	6.3
2005	3.4	2.4	8.1	9.8	4.3	2.9
2006	3.8	2.4	11.8	12.2	6.7	9.7

Source: Kaufmann et al. (2007)

The Sudan data show strong improvements in 2006 as compared to the year before on all indicators except for political stability. The results of 2006 are also higher than in the first year of collection (1996) everywhere, for most indicators significantly. But many have also been better a few years ago, indicating a rough way of reform. And in any case Sudan's level of governance is still extremely low, internationally compared.

Some of the important data aggregated in this data base are also publicly available in Sudan, some of them recorded for a longer time. An important condition for good governance is freedom. Key indicators for this are the political rights and civil liberties indices of 'Freedom House'. Political rights and civil liberties are measured on a one-to-seven scale, with one representing the highest degree of freedom and seven the lowest. The concept establishes the broad categories of free (1-2), partly free (3-5) and unfree (6-7)

governance systems. Since 1989 Sudan was characterised as ‘unfree’ and has the worst possible rank on both indicators. During brief periods – 1979-1983/84 and again 1986-89 – they had been upgraded to ‘partly free’.

The more recent concept of ‘failing states’ captures the phenomenon that a number of states at the lower end of governance quality are actually failing their basic functions, losing their legitimacy and threatened in their existence. Since 2005 a new indicator specifically targeted at the determinants of ‘failing states’, is collected by an American civil society organisation (Fund for Peace [2007], see table below).

**Table 5: Failed States Indicators (2005-2006)**

Indicator	2005	2006	Trend
Mounting demographic pressures	8.6	9.6	▼
Massive movement of refugees and IDPs	9.4	9.7	▼
Legacy of vengeance – seeking group grievance	7.8	9.7	▼
Chronic and sustained human flight	9.1	9.1	►
Uneven economic development along group lines	9.0	9.2	▼
Sharp and/or severe economic decline	8.5	7.5	▲
Criminalisation or delegitimisation of the state	9.2	9.5	▼
Progressive deterioration of public services	8.7	9.5	▼
Widespread violation of human rights	8.0	9.8	▼
Security apparatus as ‘state within the state’	9.8	9.8	►
Rise of factionalised elites	8.7	9.1	▼
Intervention of other states or external actors	7.3	9.8	▼
<b>Total</b>	<b>104.1</b>	<b>112.3</b>	<b>▼</b>

Source: Fund for Peace (2007)

It proposes 12 indicators: Mounting demographic pressures, Massive movement of refugees and IDPs (Internally Displaced Persons), Legacy of vengeance – seeking group grievance, chronic and sustained human flight, uneven economic development along group lines, sharp and/or severe economic decline, criminalisation or delegitimisation of the state, progressive deterioration of public services, widespread violation of human rights, security apparatus as ‘state within the state’, rise of factionalised elites, and intervention of other states or external actors. This project points to the relative character of these attributes by collecting the data for all states. Sudan ranked as worst in the failed states indicator in 2006 (out of 146 states), as compared to third worst in 2005. Alarm-

ingly, these indicators deteriorated on all but three counts between 2005 and 2006. Only the records on chronic and sustained human flight and the security apparatus as ‘state within the state’ remained constant. Only on ‘severe economic decline’ Sudan improved its performance, based on its raising oil economy.

Other important aspects of governance are covered by the business climate rankings of the World Bank that distinguish 12 elements (see Table below). These capture important aspects of economic governance, but also its impacts. The ‘doing business rankings’ of Sudan are also among the worst: the ease of doing business was ranked as 151 (of 154 countries), in 2006. In 2007 the rank improved slightly to 143 (of 178 countries).

**Table 6: Doing Business Rankings**

Criterion	Rank 2006	Rank 2007	Trend
Ease of doing business	151	143	▲
Starting a business	68	95	▼
Dealing with licenses	-	131	
Employing workers	77	140	▼
Registering property	-	32	
Getting credit	123	135	▼
Protecting investors	-	147	
Paying taxes	-	60	
Trading across borders	144	143	▲
Enforcing contracts	151	143	▲
Closing a business	153	178	

Source: World Bank, Doing Business in 2006

Note: 1= best ranking, 151 (2006) or 178 (2007) = worst ranking

In summary, Sudan’s governance indicators are alarming. While there are some moderate overall signs of improvement, the ‘failing states’ indicators point to the opposite direction. That it coexists with high growth is typical for resource based economies. It does not question the importance of governance indicators. Rather, it points to severe limits to broad based growth and sustainability.

Very little attention has been given so far in the literature to the institutional dimension of development in Sudan. Abdel Gadir Ali (2005) makes a first approach to this topic and presents political and economic measures. As he finds no relationship between the high

growth and continuing low measures of institutional quality, and observes that institutional reform needs a long time, he concludes that there is the need to temper hopes for ‘quick fixes’ of institutional reform as a basis for an improved development record.

### **3.5. Sudan’s Revenues and Revenue Management**

As identified in section 2, Public Finance Management (PFM) as a whole is a necessary basis to avoid resource curses of resource based economies. Two recent important reports, the World Bank’s first public expenditure review (World Bank 2007a+b) and an expert mission to Southern Sudan, following a request of GOSS following its budget 2007 crunch (High Level Technical Mission on Issues in Fiscal Management [HLTM, 2007]) undertake valuable detailed analysis and recommendations.

The importance of PFM was recognised in the peace negotiations and accordingly the Comprehensive Peace Agreement (CPA) includes explicit stipulations. 50% of the oil revenues are to be transferred from GNU to the GOSS. However, no agreement or protocol was approved by GNU and GOSS on details on methodology and set of assumptions about costs and revenues, definition of terms, how to deal with variety of situations that can arise – and reality has shown that the devil lies in the detail.

More than half of Sudan’s government revenue comes from oil (see table 7). Most of GOSS’s income derives from the share of oil revenues accorded to the south under the wealth sharing provisions of the CPA. Typically for other low-income countries that produce oil, Sudan’s revenue structure has a weak level of non-oil revenue collection. The non-oil revenue base remains relatively thin. Numerous tax exemptions and tax holidays also limit the effectiveness of the existing system.

The country has a weak tax policy and administration (World Bank 2007b). At about 6-7% of GDP, Sudan’s tax effort is low for its level of development. Direct taxes are extremely low, amounting to only about 1.2% of GDP and comprise a Business Profit Tax (BPT), and Personal Income Tax (PIT), a tax on Sudanese residents abroad, and various stamp duties. Almost all government employees and around 80% of private sector employees (World Bank 2007b: 16) are now effectively exempt from income tax. This is naturally a very heavy bribe to all employees – an effective safeguard against any policy change. Naturally this is the interest group that would be in the best position to challenge the status quo that benefit those in political and economic power.

The current direct tax system is distortionary, discretionary, and inequitable. Corporate tax incentives exacerbate existing distortions and inequities, narrow the tax base, and substantially undermine the overall tax effort – e.g. through unequal tax holidays, and import duty exemptions to investors.

Indirect taxes account for around 80% of tax income, with taxes on international transactions (customs duties) dominating. The customs system is riddled with exemptions. The country first (draft) Public Expenditure Review (PER) makes the observation that the country has a relatively open trade regime with few non-tariff trade barriers’ (World Bank 2007b: 13). This contradicts the low degree of trade openness (see above), casual observation and the high domestic prices of imported goods and services.

In any case, there is significant dispersion among rates with a top rate of 40%. The simple average tariff is about 20%. Although data are absent to substantiate, also the poor can be assumed to suffer to a high degree from the high import duties, as many consumption goods are highly import dependent. Cooperation between GNU and GOSS with respect to the application of custom duties and revenue collection is almost absent. This creates effectively two parallel trade regimes (World Bank 2007b: 13).

Following recommendations by the IMF (International Monetary Fund) a value added tax (VAT) was introduced in 2000. However, mainly because of weak tax administration Sudan’s VAT performance is weak. Various decrees changing the goods to be taxed and the thresholds have complicated tax administration.

The tax system is fragmented, unevenly applied, characterised by widespread exemptions and tax holidays that limit the effectiveness of the existing system.

**Table 7: Sources of Government Revenue (as % of GDP, 2001-2006)**

	2001	2002	2003	2004	2005	2006
<b>Total revenue</b>	10.7	11.9	16.0	19.7	21.7	19.4
<b>Tax revenue</b>	5.5	5.4	5.8	7.5	6.9	6.3
<b>Direct taxes</b>	1.2	1.0	1.1	1.3	1.4	1.2
<b>Indirect taxes</b>	4.3	4.4	4.7	6.2	5.6	5.1
<b>Trade taxes</b>	2.2	2.5	2.4	2.8	3.0	2.6
<b>Excise duties</b>	0.9	0.8	1.1	2.0	1.3	1.3
<b>VAT</b>	1.1	1.1	1.2	1.3	1.3	1.2
<b>Non-tax revenue</b>	5.2	6.5	10.2	12.2	14.7	12.7
<b>of which: Oil</b>	4.3	4.6	8.4	10.3	13.3	10.8

Source: World Bank (2007b: 1)

Following oil exploration, public expenditures have starkly expanded. Since 2006 this expansion has outstripped that of revenues, leading to a growing deficit, helped by over-optimistic projections and expectations.

Fiscal decentralisation, a key element of the CPA, poses stark challenges. In sum, the authorities on the provincial (i.e. South Sudan), state and local authority levels are not at all prepared for their expanded revenues, tasks, and responsibilities. This is not only, but particularly, true for the South. It is also not sufficiently clear to which level of public administration tax authority and revenue collection are assigned. This assignment has grown more complex over time. Sometimes there are two or three levels of administration responsible for the same tax. Not even the central Tax Chamber is a strong institution in a good position to give direction and control to its branches in the states. Meanwhile, the fragmentation of operational offices and the ongoing decentralisation of tax administration, combined with the lack of operational policy guidance, increase the risk of inconsistent and ineffective operations across the country (World Bank 2007b: 18).

Although a modernisation effort is undertaken, the Tax Chamber remains a 'tax-type organisation' (World Bank 2007b), leading to a high degree of fragmentation of responsibilities. Another problem is weak taxpayer compliance. As tax officials tend to view assessment of taxpayer liabilities as mandatory, and businesses often dispute assessments made, the process ends up with a negotiated amount of liabilities during the appeal process. This leads to low compliance, further evasion and cumbersome administration. The general poor quality of public services received is, however, the driving force of low compliance. Southern Sudan is in a particularly precarious situation concerning PFM. GOSS is almost completely dependent on oil transfers from GNU. Although there are ambitious plans to raise non-oil revenues, these have been proven as unrealistic so far: The 2007 budget projected \$234m of non-oil revenues (compared to \$2 m in 2006), only \$1m were received. Experts estimate a maximum of \$35-40m that can be collected in 2007. At state level there were also high overestimates of revenue in 2006, and a high gap between planned expenditure and tax. Despite commitments by GOSS at the Sudan Consortium in March 2007 to prioritise improvements in PFM in 2007, what occurred in 2006 happens again in 2007. Result is that resources are not allocated according to budget – that in no systematic way follow the strategically most important areas - but to those 'who make most noise'.

The problems of management in GOSS culminated in the summary dismissal of the senior management of the finance ministry in 2007, including the minister. This indicates at least willingness to address corruption and mismanagement. The ability to enforce good fiscal governance is, however, still another matter. It is generally difficult to estimate future revenues arising from oil, but especially in Sudan. Five factors affect GOSS revenues from oil (HLT M 2007). Everywhere the income depends on the development of international oil prices. As it is well known this is very uncertain, although it is widely believed that there is an upward movement because of increasing demand from emerging economies, in particular China. In fact there have been high increases recently. Secondly, the income depends on the level of future oil production – this has also increased in Sudan. However, the prices received were lower than expected because of low quality. Transport and other charges were on the other hand high. The Production Sharing Agreements (PSAs) of government with oil companies leave it difficult to assess government entitlements, because costs are subject to uncertainty – they may rise rapidly. A weak point generally identified in PFM, and beyond in governance, is the lack of a well defined and functioning communication and cooperation structure between GNU and GOSS. Dialogue with GNU is particularly needed to enhance GOSS knowledge and to build institutional capacity for revenue collection (World Bank 2007a). Also, although transfers from GNU are vital for GOSS, there is no dedicated staff for this purpose. The draft revenue act needs to be passed (HLT M 2007). But as a first step, existing revenue laws and regulations need to be enforced. Further, measures to investigate and improve compliance of revenue administration with existing revenue laws and regulations can be taken, while refraining from imposing any additional taxes or user fees. Revenue estimation training and advice is also important.

An Oil Revenue Stabilization Account (ORSA) was set up with the intent of stabilizing the revenues available to government in face of fluctuating oil prices. But in practice this fund was used on short notices to withdraw funds when needed and no longer accumulates funds for its original purpose – in fact it is currently depleted. In view of the experts, it ‘merely complicates’ (HLT M 2007). A main shortcoming is also that it was not designed from the start as a longer term saving fund, in order to avoid spending huge sums when the absorption capacity of the economy is still very low, and instead spending later (which would also moving benefits to later generations). Detailed actions to improve GOSS assessment of oil revenues are proposed by HLT M, including the support of de-



veloping an effective National Petroleum Commission, to improve transparency, e.g. by implementing the Extractive Industries Transparency Initiative (EITI). Sudan also faces severe problems of payroll management (HLT M 2007). Currently 60,000 public employees are paid by GOSS. Gross public employment in Southern Sudan is estimated at 210,000 (equal to 2-4% of population). This is double of what can be considered as to be a lean and efficient government. The public sector in the South, newly built up, has generally a very poor capacity. The majority of new public servants are employed as a measure of social security, rather than because of specific tasks to be done. This is parallel to the slow pace of the demilitarization, demobilization, and reintegration (DDR) programmes. The pressure to deliver a 'peace dividend' is motivating the high public employment. The aspirational, rather than realistic character of the budget, does not allow transfers to the GOSS ministries and agencies to continue for the entire year, nor any predictability. In 2006 large sums were released by GOSS to line ministries without receiving expenditure statements from any ministry as required. In April 2007 instructions were issued that no further releases will be made without such.

The practice of parliament to change the resource envelope when approving the annual budget (rather than much earlier) contributed to the present fiscal crisis of GOSS. There is a similar pattern at the GNU level, with no involvement of parliament at the early and appropriate stages of the budget process, which actually invalidates the important role of parliament. In sum, a closer look at the system of PFM of Sudan, both at the national and Southern level, reveals a wide distance to any sufficient, not to speak of 'best practice' system. At the state and local level, which are both supposed to play a much more important role under the system of fiscal decentralisation, the challenges are much more grave and basic.

#### **4. Conclusion: Can Oil and Aid be turned into Blessings for Sudan?**

The experience of Sudan has shown that oil has become the backbone of high growth and the most important source for public revenue. Foreign aid is not as significant as planned overall, but important in the South. The balance of the mineral and aid rents has been mixed. On the positive side, they have supported higher rates of investment and imports, economic growth continues to grow. A growth collapse has not happened, but both rents are subject to high uncertainty. The overall HDI continues to improve, but resources have not yet systematically targeted the poor, either through the pro-poor provision of public

services or through expansion of employment, expanding economic and social infrastructure or transferring assets to the poor. Grievances are simmering. The oil rents have distorted the economic structure, as the traditionally main economic sectors that represent Sudan's comparative advantage have declined sharply – albeit other structural factors are also responsible. Overvaluation and rising inflation are symptoms.

Overall, oil and foreign aid rents give a high degree of independence from the society to government and related interest groups. Business organizations and civil society are as yet weak. There is less pressure to reform, further sweetened by the low taxation. The independence weakens the pressure both to democratize and for economic reforms. External agencies as IMF, World Bank, WTO (to which Sudan aspires to be a member), and the international community, including international civil society have currently a better position to demand accountability. Important pillars will be the parliament and the press. The low level of accountability under all forms of government Sudan had so far is reflected in the alarming governance indicators. The CPA, the country's reintegration into the world economy and the oil and aid resources provide the basis to improve them, which is the basis of making good uses of the rents. But these also lessen the pressure for government to move forward in reform. In the absence of reform to the benefit of the citizenship the likelihood of resumed conflict is high. It will be important for the success of reform that the domestic civil society is strengthened in order to demand this reform. At the core of governance reform is the PFM system. This is at a grossly inadequate level to give a minimum of assurance necessary for combating the resource curse. The situation is very serious and threatens to undermine any progress. Rectification is urgent. It depends in the first place on political commitment by leadership, but secondly also on high quality technical assistance.

Sudan needs to improve revenue collection and tax administration, not only to ensure lower debt and non-inflationary financing, but also to fulfill the huge reconstruction and development needs of the region. Not only need oil incomes increasingly to be complemented, but also customs incomes, that are not only a break on development of the private sector, but also in the course of trade liberalization. In the case of oil revenue, increasing transparency and institutional reform affecting oil production, investments, pricing and transfers are urgent. It will be important to improve the data and analytic basis for policy reform. Poverty and its distribution should be measured. Levels of expenditure on pro-poor services should be measured and assessed what is needed to bring these services

to MDG standards by 2015. In principle foreign aid should be integrated in government programmes. So improvement of PFM is vital. There can be no successful and sustainable aid in the absence of sound PFM. In particular public sector projects and programmes should have respective elements or make sure that they link to the programmes of other actors. Massive safety net programmes should be considered, so that only the needed and qualified are employed, and civilian public service employment is insulated from DDR programmes. This would also be a way to distribute a 'peace dividend' in a fair and equitable way.

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# **Oil Revenue and Fiscal Policy in Postwar Sudan with a Focus on Government of Southern Sudan (GOSS) Financial Sustainability**

Abraham Matoc Dhal

## **Abstract**

*In Sudan there has been a conflict that could be broadly seen at five dimensions: economy, power, religion, culture and ethnicity as well as race. The paper only tackles the economic dimension and particularly the oil revenues and the fiscal policy in post-war Sudan focusing on GOSS financial sustainability. The main issues addressed by the paper include the discovery of oil and its exploitation, oil revenues and non-oil resources allocations, the transfer of 50% oil revenues and financial sustainability at the GOSS level. The paper gives a brief overview of fiscal policy in Sudan and noted that the Government of National Unity (GONU) fiscal or budgeting policy is deficient. More resources go to the centre which was 61% and transfers to GOSS were 16% only. The fact that 50% non-oil resources were not flowing, handicapped the Southern Sudan to undertake a reconstruction and development program successfully. The GOSS pro-poor budget is more or less dependent on 50% oil revenues. It needs to enact tax laws to lift it out from underdevelopment. However, GOSS will have to depend on GONU transfers, donor funds and grants initially to stimulate the growth of tax base through financial and private sector support. The paper analyzes the topic under five sections including introduction, an overview of fiscal policy, the main issues, financial sustainability and ends with a conclusion and policy implications.*

## **1. Introduction**

### **1.1. Background to the Problem**

In Sudan there has been a conflict that could be broadly looked at five dimensions: economy, power, religion, culture and ethnicity as well as race. Our focus is the economic dimension. Economic issues were concerned with wealth sharing and mainly the inequitable distribution of wealth and incomes.

Financial resources form the largest portion of Sudanese wealth. Finances in our country are distributed or allocated in terms of revenues, grant in aid, development funds etc. be-

tween central government, states and local authorities. The general picture was that development funds and resources allocated and transferred by the central governments in Khartoum to the states/regions were far below the budgetary and development requirements and financial needs of the states particularly the Southern Sudan since 1956-2004. Transfers of funds from the central governments in Khartoum to Juba were also neither prompt nor adequate. Such poor economic and fiscal policies eroded the central government financial relationships with the Southern Sudan governments in many ways. Economic resources and benefits were not shared equitably hence it resulted to conflict and eruption of war in the 1950s and 1980s. Moreover, oil discovery in late 1970s exacerbated the conflict between the Central governments in Khartoum and the Southern Sudan. This was evidenced by re-drawing of states boundaries in 1980s. Places with oil resources in the Southern Sudan were renamed: Bentiu was called Unity State. Its oil wells were named as Unity (1) Unity (2) and Unity (3) (Dhal, 2005, P.94).

However, the Comprehensive Peace Agreement (CPA) signed on 9<sup>th</sup> January 2005, between the Central Government and Sudan People's Liberation Army/ Movement (SPLA/M) Nairobi, Kenya marks a turning point in the history of Sudan. It is a shift away from extreme centralization of economic power in the whims of central governments in Khartoum full of deprivation, characterized by inequitable distribution of wealth and revenue sharing and a move to more decentralization and equitable distribution of wealth and revenue sharing-aimed at ensuring financial sustainability and development, poverty eradication and improvement of living standards of the people. The CPA is a unique and valuable covenant, internationally and locally. It contains packages of economic financial policies that will likely ensure development.

Under its wealth and revenue sharing guiding principles, details of sources of revenues for GONU, GOSS and the states are particularly stipulated. Further, it covered issues of monetary policy, fiscal policy, banking, currency and lending. The CPA is the framework, if implemented honestly; it will likely help the Sudan to come out from economic backwardness to economic development.

With the implementation of the CPA, the main issues to be addressed are whether:

- Discovery and exploitation of oil in Sudan made a change,
- Oil revenues and non-oil resources allocated in accordance to the CPA are sufficient to cover recurrent and development expenditure of the GOSS during the interim period,



- GOSS realized a transfer of 50% non-oil revenues allocations as stipulated by the CPA,
- Transfer of 50% oil revenues was prompted,
- Resource allocations in accordance to the CPA are adequate to ensure a reconstruction program in the Southern Sudan and financial sustainability of the GOSS during the interim period.

## **1.2. Methodology**

One important step was field trips to Juba, Wau and Malakal to see and observe things physically on ground in 2005 and 2006. The focal ministries for consultations and data collection were the Ministry of Finance and National Economy, State Ministries of Finance in Wau, Malakal and GOSS Ministry of Finance and Economic Planning, Juba. Reports by Petroleum Unit by the Ministry of Finance were also considered.

Also as a member of the Panel of Experts of the Fiscal and Financial Allocation and Monitoring Commission (FAMC), Khartoum, there was accessibility to information and sharing of knowledge with experts and senior officials of the Ministry of Finance and National Economy, national revenue support mainly in a series of meetings organized by the Fiscal and Financial Allocation and Monitoring Commission.

The discussions and deliberations by academics with various ministries of finance were instrumental especially when issues of criteria for wealth and revenue sharing were discussed. Conversations were also another means for generating data. After that, direct discussions and consultations with undersecretaries of the Ministry of Finance and Economic Planning at GOSS level were successful. The discussions and conversations were validated by reviewing of GOSS pro-poor budget, states budgets and general budget of the GONU, committee reports particularly the report on oil revenues were significant. Joint Assessment Mission (JAM) Reports and various publications on fiscal policies were consulted. For data analysis, a number of approaches were used including analytical, descriptive and comparative analysis.

## **2. An Overview of Fiscal Policy in Sudan**

Sudan is a resource-rich country in natural potentials ranging from oil, gold, agriculture, animal wealth or livestock, fishery, forestry, uranium, tin, copper, cement, fruits, fertile land, water in the form of rivers, pools, tributaries etc. Most of them are found in the

Southern Sudan. All these resources are land based and they represent sources of extractable wealth. The use of these resources creates a base for income wealth to be generated through taxation.

Ever since, agriculture has been the most important item of revenues in the government budget. It was also the largest sector where over 80% of the Sudanese people depend for subsistence livelihood. But, the fiscal policy or budgetary policy reflects acute imbalances in the Sudan. Fiscal policy refers to taxation, expenditure and lending by government or budgetary policy.

For an underdeveloped country like the Sudan, the objectives of fiscal policy are raising taxes, mobilizing revenues and lending financial resources to meet expenditure on administration of taxation with the aim to accelerate economic development.

The purpose for this is clear. There are vast and diverse resources available in Less Developed Countries (LDC), that are not utilized or under-utilized and consequently the country concerned remains underdeveloped. The government being the representative of the society uses fiscal policy to develop its country. The opposite is true in case of the Southern Sudan which is absolutely underdeveloped due to weaknesses in efficient fiscal policies which existed since its independence. Until today, there is a weak infrastructure in the Southern Sudan. There is a lack of adequate means of transport, communication, roads, highways, electricity, irrigation system, adequate education and health facilities, safe drinking water and good housing. To meet these challenges, an efficient fiscal and taxation policy or budgeting policy as enshrined in the CPA is a must as an instrument to mobilize oil resources for economic development and to support reconstruction as means to ensure equitable distribution of income and wealth at least to enable the people to enjoy fruits of peace dividends through a reconstruction program and economic development in the Southern Sudan. This implies that financial allocations are needed especially in underdeveloped countries like the Sudan, channelled through sound and fair budgetary policy. These financial allocations have an instrumental role in the reduction of regional imbalances, the cutback of development of social overheads or the creation of infrastructure to ensure economic development due to the support of transport and communication facilities, healthcare system, basic and key industries, education and training as well as research and development.

However, GONU's fiscal or budgetary policy is deficient in this area. For example, the general budget for the Sudan central government in 2006 allocations reflects that the Southern government was allocated a very insignificant amount of money.

For instance, the 2006 budget was formulated on the basis of the Interim National Constitution of 2005. Its total resources and revenues were SD 1917.4 billion. Out of which total public revenues amounted to SD 1709.4 billion and sources of local financing was SD 208.0 billion respectively. The allocation of local resources budgeted by the Central Government included provisions made for GOSS and states in the Southern Sudan producing oil had SD 319.4 billions which is 16.7% of the total amount. Also a transfer to GOSS SD 306.9 billion which is 16.0%, states in Southern Sudan producing oil was SD 12.5 billion which is 0.7%. But northern states were allocated SD 428.3 billion which is 22.3%, and National Government with SD 1169.7 billion which is 61.0% (Republic of the Sudan 2006 a, b, Ministry of Finance, estimates of revenue and expenditure in Sudanese Dinars (SD) for current and the development budget for the fiscal year 2006).

These figures reflect that allocation and transfers to Southern Sudan are insignificant compared with the assessed financial requirements for Southern Sudan related to the costs estimates on capacity building and institutional development, governance and rule of law, economic policy, productive sectors, basic social services, infrastructure, livelihoods and social protection, information and statistics estimated at US\$1,290 for 2006 (JAM 2005). Tables 1 and 2 below substantiate this argument clearly and point out that very little has been allocated for Southern Sudan.

**Table 1: National Resources and Revenues (2006)**

Item	Amount (Billion SD)
National Resources and Revenues	1709.4
Sources of Local Financing	208.0
<b>Total</b>	<b>1917.4</b>

Source: Speech by Minister of Finance, Ministry of Finance and National Economy (2006)

**Table 2: Allocation of Resources and Revenues (2006)**

Item	Amount (Billion SD)	Percentage
GOSS and Southern Sudan Oil-producing States	319.4	16.7%
Transfers to GOSS	306.9	16.0%
Southern Sudan Oil-producing States	12.5	0.7%
Northern States	428.3	22.3%
National Government (GONU)	1169.7	61.0%
<b>Total</b>	<b>1917.4</b>	<b>100.0%</b>

Source: Speech by Minister of Finance, Ministry of Finance and National Economy (2006)

### **3. Main Issues**

There are four main issues indicated earlier under section one of this paper. They include (1) Discovery and exploitation of oil in Sudan and change in terms of economic development, (2) Oil revenues and non-oil resources allocations, (3) Features of GOSS revenues and pro-poor budget, (4) Resources allocation and financial sustainability. This section discusses them together.

#### **3.1. Discovery and Exploitation of Oil in Sudan and Change in Terms of Economic Development**

Although search for oil started in earlier 1950s, the actual discovery with definite oil wells identified in the Southern Sudan was in 1978. Oil discovery inspired economists, Sudanese public and decision-makers to assume that the discovery of oil will enhance economic development, increase employment opportunities and improve the living standard of the people. But the general picture was that, discovery of oil seems to have exacerbated conflict and war. Competition over oil resources increased the tension on both sides (Central Government in Khartoum verses SPLM/A). This was clear over distribution of important or sovereign Ministries of Finance, Energy and Mining when the National Congress Party (NCP) took them over. While the war was still being fought, the central government started to exploit the oil since 1990s and the oil proceeds being used in the north and mainly Khartoum (expansion of roads and maintenance of airport).

However, changes in context of development and transfers of funds were observed when CPA was being implemented. Still there are major implications in the sense that the use of oil resources and exploitation seems to aggravate poverty and imbalances in development. There are specific examples to support this argument. For example, Northern Upper Nile and mainly Melut Basin including Block 3 and 7 is an oil rich area but remained underdeveloped. European Coalition on Oil in Sudan (ECOS, 2005) puts it that the development of the Melut Basin had brought no substantial social benefits, but has rather taken the area backwards.

Despite the flood of displaced people, there is only one small school in Paloic, composed of four straw huts. There is not a single bore hole to provide clean water. While exploitation of oil resulted to the displacement of people from their original villages, an oil pipeline with a length of 1,600km [1,000 miles] was constructed, supported by China to take

oil from the Southern Sudan to Port Sudan or the Red Sea coast. The consequences were extremely grave. The dislocated people were ruined to an extent that meant inadequate access to all basic human needs, ranging from shelter, food, to education, and health services. Their return to places of origin will need some basic guarantees in terms of tools, equipment, food, livestock and seeds (European Coalition on Oil in Sudan (ECOS), 2005) to ensure their livelihood. It is also deplorable that Community developments by oil companies are insignificantly limited to the building of few schools, hospitals and clinics (ECOS, 2005). This implies that oil companies exploiting the oil resources in the Southern Sudan were only siphoning out oil resources to benefit themselves. It seems that the government did not provide conditions or attach specific conditions that could oblige the oil companies to contribute towards development of the communities who were originally residents of the areas where oil has been discovered. This implies that the changes in terms of development and delivery of development services to the communities in the rural Sudan are not substantial. Northern Upper Nile or the Renk area remained underdeveloped, letting alone the rest of the Southern Sudan. More imbalances have occurred at worsening conditions. But the discovery and exploitation of oil is more or less felt in Khartoum. Although reliable data is missing, any observer would agree with us that the construction and maintenance of Khartoum airport and roads is directly through oil money or indirectly aid generated and supported through oil contracts. It is clear that oil exploitation in Sudan has resulted to an increase of revenues through production of oil resources.

### **3.2. Oil Revenues and Non-oil Resources Allocations**

The issue of oil revenues and non-oil resources allocations in the context of the CPA, whether they are sufficient to cover recurrent and development expenditure of the GOSS, whether the GOSS realized the transfer of 50% non-oil revenues allocations, whether the transfer of 50% oil revenues was prompted, are interrelated; they are tackled together under this section. The data used under this sub-heading is derived from two reports compiled by the Ministry of Finance (MOF) and National Economy, Petroleum Unit (PU), 2005 and 2006 (MOF-P.U, 2005, P.1) respectively. A technical committee is supervising the distribution of oil revenues (see Appendix1). Oil revenues are derived from the quantity of oil produced monthly and yearly as shown by Table 3: For example, the total production of oil was 100,249,758 barrels, of which production from the Southern Sudan

stood at 72,756,038 million barrels in 2005. South Sudan's share of revenues was 72.57%. The Government's entitlement was 69,682,634 million barrels (MOF-P.U, 2005, P.1).

From the total crude oil production in 2005, the North produced 19,212,014 million barrels and the South 50,470,616 million barrels. Details of the quantity of oil produced in Sudan are shown in Table 3 for the year 2005 (MOF-P.U, 2005, P.1).

**Table 3: Quantity of Sudan Crude Oil Production Monthly (Fiscal Year 2005)**

		FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL	
Total Production	BBL	6,567,660	8,031,851	9,123,973	8,870,034	8,789,862	8,676,400	8,374,000	8,581,016	8,342,981	8,385,072	8,126,717	8,380,192	100,249,758
Production from the South	BBL	4,921,620	6,011,352	6,865,204	6,510,742	6,291,068	6,238,023	5,949,451	6,128,587	5,934,535	6,004,313	5,833,648	6,067,495	72,756,038
South percentage	%	74.94%	74.84%	75.24%	73.40%	71.57%	71.90%	71.05%	71.42%	71.13%	71.61%	71.78%	72.40%	72.57%
Government Entitlements:														
From the North	BBL	325,780	1,312,114	1,759,552	1,527,718	1,960,978	1,884,118	1,957,735	1,589,126	1,785,347	1,587,469	1,824,449	1,702,628	19,212,014
From the South	BBL	974,220	3,902,965	5,346,879	4,215,583	4,936,688	4,820,930	4,804,741	3,971,148	4,386,426	4,004,181	4,640,642	4,466,313	50,470,616

Source: Republic of Sudan, Ministry of Finance and National Economy, Petroleum Unit, MOF-P.U, GOSS Share from Oil Revenues, 2005, P.2.

Note: Oil is produced in large quantities in Southern Sudan, but refinery is in the north (Port Sudan). See Appendix 2 and 3.

As shown in Table 3, the share of oil revenues is distributed on the basis of the CPA formula which is explained as thus:

Definite framework for the sharing of the wealth emanating from oil resources of the Southern Sudan shall include the following:

1. Net revenue from oil shall be the sum of the net revenue from exports of government oil and from deliveries of government's oil to the refineries. Exports shall be valued at the actual Free on Board (FOB) export prices less the changes to deliver the oil to any export destination including pipeline and management charges. Oil delivered to the refinery shall be valued at the average FOB export prices during the last calendar month in which there was an export sale less the charges that would have been incurred to deliver the oil to any export destinations including pipeline and management charges.
2. An oil revenue stabilization account shall be established from government oil net revenue derived from actual export sales above an agreed benchmark price. The benchmark price will be established annually as part of the national budget reflecting changing economic circumstances.
3. At least two percent (2%) of oil revenue shall be allocated to the oil producing states/regions in proportion to output produced in these states/regions.
4. After the payment to the oil revenue stabilization account and to the oil producing states/regions, fifty percent (50%) of net oil revenue derived from oil producing wells in the Southern Sudan shall be allocated to the Government of Southern Sudan (GOSS) and the remaining fifty percent (50%) to the National Government and States in Northern Sudan (CPA, 2005, P.54 and INC, 2005, P.115).

For the financial year 2006, a transfer of 50% oil revenues was consistent on the basis of monthly production of oil, quantity of oil exported, net national government revenue and net available for distribution after states share of 2% as well as percentage of oil produced in the Southern Sudan and GOSS revenue share. Table 4 illustrates the GOSS export revenue share as from January to August 2006.



**Table 4: GOSS Export Revenue Share Monthly (January-August 2006)**

Month	Export (BBL)	Total Export Revenue (m US\$)	Transportation Cost (Export+ Local) (m US\$)	Net National Government Revenue (m US\$)	Net Available for distribution after States share 2% (m US\$)	% of Oil produced in South	GOSS Revenue Share (m US\$)
January	3,049,076	137.2	26.6	110.6	108.4	72.40%	39.2
February	2,352,233	105.8	23.6	82.8	80.6	72.56%	29.2
March	2,878,579	129.5	23.4	106.1	104.0	72.09%	37.5
April	3,515,928	158.2	21.5	136.7	134.0	71.98%	48.2
May	3,351,717	150.8	22.1	128.7	126.1	72.04%	45.4
June	3,378,096	152.0	15.0	137.0	134.2	71.38%	48.3
July	3,002,312	135.1	24.2	110.9	108.9	72.16%	39.2
August	3,754,391	168.9	24.7	144.2	141.2	65.43%	46.2
<b>Total</b>	<b>25,282,232</b>	<b>1,137.5</b>	<b>118.1</b>	<b>956.4</b>	<b>937.2</b>		<b>333.2</b>

Source: Ministry of Finance and National Economy, Republic of Sudan, Petroleum Unit (MOF-P.U), GOSS Share from Crude Oil Revenues, August 2006 (Committee Report).

Although the transfer of 50% oil revenues is consistently flowing to GOSS, states in the Southern Sudan seem to be dissatisfied and called for equitable redistribution of oil revenues in the southern states. In a conference held on 1<sup>st</sup> – 2<sup>nd</sup> Nov. 2006, states called for a review of oil revenue sharing agreements between GOSS, oil companies, states and counties. Their view was that instead of 2% royalty (CPA), 5% for producing county, 10% for producing states, 45% for GOSS to share out to other parts of southern Sudan as a contribution to GOSS operations and 40% to the company. The reasons are to generate enough money for the people of Southern Sudan to receive peace dividends through the oil industry. (See Oil and Future of Southern Sudan, 2006, p.18). This conference was held in Juba to examine oil revenues sharing between the GOSS and states in the Southern Sudan. In a nutshell, the transfer of oil revenues has been realized fully. A report (MOF-PU., 2005 & 2006) by a Joint Technical Committee for Monitoring Net Oil Revenue has summarized the shares and transfers to the government of the Southern Sudan (GOSS) for two years as follows (see Table 5):

**Table 5: Shares and Transfers to (GOSS) and the Relevant Southern Sudan States from the Net Oil Revenues (2005-2006)**

<b>A</b>	<b>GOSS</b>	<b>2005</b>	<b>2006</b>	<b>Total in US\$ Million</b>
	GOSS Net Oil Revenue Shares	798.40	953.30	1,751.70
	Direct Transfers	523.30	845.94	1,369.24
	Transfer from ORSA (Oil Revenue Stabilization Account)	96.25	327.02	423.27
	<b>Total Cash Transfers</b>	<b>619.55</b>	<b>1,172.96</b>	<b>1,792.51</b>
	Total Direct Expenditure Payments by National Ministry of Finance directed by GOSS to certain entities delivering services in the South	194.50	43.16	237.66
	The Total Transfer to the South	814.05	1,216.12	2,030.17
<b>B</b>	<b>Unity State:</b>			
	Shares	32.59	38.14	70.73
	Transfers	21.90	53.23	75.13
<b>C</b>	<b>Upper Nile State</b>			
	Shares	-	0.77	0.77
	Transfers	-	0.03	0.33

Source: Khartoum Monitor, Feb. 12<sup>th</sup> 2007, Vol.6 Issue No.1138, P.2

For the last two years the revenue and expenditure competition of GOSS pro-poor budget has been mainly oil revenues with no transfers of 50% non-oil revenues. The following subsection 3.3 discusses features of GOSS revenues and its pro-poor budget for 2005 and 2006.

### **3.3. Features of GOSS Revenues and Pro-poor Budget**

The structures of GOSS revenues as budgeted on the basis of pro-poor budget for 2005 and 2006 composes of recurrent revenues, oil revenues, non-oil revenues, non-taxes, donor grants, multi-donor trust Fund, non-multi-donor funds, grant from GONU and other donor grants. Its expenditure consisted of current expenditure (salaries, states and counties, and other operating costs). On the other hand its development expenditure includes GOSS, states and county-development activities.

The feature of GOSS Revenues budgeted for pro-poor goals and objectives is detailed by the following Table 6 for 2005 and 2006 respectively.

**Table 6: Composition of GOSS Revenues and Expenditures as budgeted for Pro-poor Goals and Objectives (2005-2006)**

Item	Year 2005 Projected Out-turn (US\$)	2006 Estimates (US\$)
<b>1.Revenues and Grants</b>	889,064,000	1,703,607,086
Recurrent Revenues	788,364,000	1,304,104,347
Oil Revenues	788,100,000	1,300,000,000
Non-oil Revenues	264,000	4,000,000
Non-tax Revenues	-	104,347
Donor Grants	100,700,000	393,402,739
MDTF	100,700,000	183,315,000
Non-MDTF	-	210,087,739
Grant from GONU	-	6,100,000
<b>2. Expenditure</b>	323,042,000	1,450,281,549
Current Expenditure	319,207,000	552,175,291
Salaries	113,476,000	252,645,021
Centre	23,801,000	117,724,786
States and Counties	89,675,000	134,920,235
Other Operating Costs	205,731,000	299,530,270
Centre	205,731,000	155,626,853
States and Counties	-	143,903,417
Development Expenditure	3,835,000	898,106,258
Government	3,835,000	541,048,519
Centre	-	463,707,932
States and Counties	-	77,340,587
Donor	-	357,057,739
MDTF	-	146,970,000
Other Donor	-	210,087,739

Source: GOSS Summary of Revenues and Expenditure for 2005 and 2006

From Table 6 above, we have extracted from GOSS summary of revenues and expenditures. The aim is to show the structure of revenues and expenditure of the GOSS pro-poor budget. The main items of revenues consist of revenues and grants which were estimated to 889,064,000 in 2005 and 1,703,607,086 US\$ for the financial year 2006. In Table 6 oil revenues seem to be the most important budget item of the GOSS pro-poor budget. The non-oil revenues contribution is very small and non-taxes as well. This is a problem because oil is a non-renewable resource and if exploitation and production would be maximized, the depletion and underdevelopment will most likely persist to a worsening stage. Another problem is that the bulk of oil revenues are spent on the payment of salaries of GOSS workers. Although employment is one important instrument for poverty reduction, oil revenues should be used for the development of agriculture, industry or other sectors of the economy which consist of renewable resources to sustain economic development in the Southern Sudan. The expenditure

on development includes the reconstruction of roads, hospitals, schools, health facilities, water, etc. The promotion of the private sector would surely result to a broadening of the tax base and a creation of incentives to generate sufficient revenues through the mobilization of non-oil revenues. By non-oil revenues we mean indirect taxation and direct taxation on business and companies, land taxes or tax sources provided by the CPA. The GOSS should enact taxation laws promptly to enable it raise revenues as stipulated by the CPA and Interim National Institution (INC). The GONU should affect the transfer of 50% non-oil resources also as shown by the CPA. It states that “Notwithstanding the provisions ...5.6, 7.1, 13.1, the National Government shall allocate fifty percent 50% of the national non-oil revenues collected in Southern Sudan, - to the GOSS to partially meet the development cost and other activities during the Interim period.” (CPA, 2005, PP 55-56). But initially GOSS will have to depend on grants from GONU and donor grants which are not definite in terms of flow.

However, observation and knowledge has shown that Western Europe developed after World War II because grants and donations mobilized through Marshall Plan in 1947 – because Europe had the skills, trained professionals and manpower with the capacity to use donations effectively. The same example is worth a replication in the Southern Sudan. Multi-Donor Trust Funds (MDTF) is useful in this direction. By the Multi-Donor Trust Fund we mean that arrangement whereby the World Bank manages funds on behalf of multiple donors, governed by standard World Bank rules and procedures. It is necessary that aid is tied to specific development projects effectively, it should be seen as “output-based-aid” that covers road infrastructure, construction of schools, hospitals etc.

In a nutshell, the development and reconstruction program must be a planned one targeting specific projects which are prioritized. However, the GOSS pro-poor budget goals of: attainment of the Millennium Development Goals, eradication of poverty, guaranteeing equitable distribution of wealth, redressing imbalances of income and a decent standard of living for the people of southern Sudan have not been achieved. Some of the GOSS pro-poor budgetary objectives have not been achieved either. These include: the provision of social basic services like primary education, primary health care and clean water; the development and regulation of the economy to ensure a stable macro-economic framework; the facilitation and development of a private sector and the encouragement for private initiatives with special emphasis on rural development and small and medium enterprises; the promotion of agricultural, industrial and technological development with prioritization into agriculture; the facilitation for a transition from a subsistence based livelihood to a development-oriented economy; as well as the development of physical infrastructure as for example the rapid expansion of the road

network to open up Southern Sudan to markets and trade etc (GOSS, 2006). Until today there is not much change in terms of provision of adequate social services such as schools, health, water and electricity and much remains to be done in the development of economic sectors. The reason is that a transfer of 50% non-oil resources is not affected to partially meet the cost of development. Also grants and donations are not flowing as pledged by the donors. Further research about the reasons that led to the inability of aid delivery is needed.

#### **4. Resources Allocation and Financial Sustainability at GOSS Level**

Allocation of resources and financial sustainability of government is determined by the fiscal policy of the state. It is the fiscal policy that can influence financial and private sectors. Of course, the financial and private sectors are likely a source of tax-based growth and financial sustainability of any economy. In more precise words, fiscal policy usually refers to the use of taxation and government expenditure to regulate the aggregate level of economic activity (Pearce, 1987). Taxation is a compulsory levy on private individuals and organizations made by government to raise revenue to finance expenditure and public goods and services, and to control the volume of private expenditure in the economy. Taxes are classified into direct taxes like income tax, business profit tax etc. Indirect taxes include excise duties and value-added tax. Where financial and private sectors are efficient and large it is more likely that governments generate sufficient revenues that could be used for developmental programs. This implies the use of fiscal policy entails that governments budget must raise revenues and spend them on recurrent and development expenditure including construction of schools, hospitals, road infrastructure, electricity, water etc. It is generally believed that well developed financial institutions and large private sectors in terms of commercial activity are a source of wider tax-based growth and financial sustainability of government and particularly the further development of the economy.

##### **4.1. Financial Sector**

The financial sector of Sudan has undergone major reforms and changes. From the 1970s up to 2004 a number of Islamic banks and commercial banks were concentrated in the Northern Sudan with a few branches such as the Agricultural Bank, Khartoum Bank etc in the Southern towns of Juba, Wau and Malakal. In the recent past, and mainly under the Bank of Sudan, the Sudan's financial system consisted of 19 commercial banks – ten are jointly-owned, six are state-owned and three are foreign-owned. In addition, there are four specialized banks, plus an unspecified number of non-bank financial entities, mainly Islamic insurance companies. It is

important to note that two state-owned banks e.g. Omdurman Bank and Bank of Khartoum dominate the Sudanese banking system (UNDP, 2006). However, the CPA implementation has injected significant changes in the banking and financial institutions system. Before we discuss further, financial institutions refer to banks and non-banking institutions such as insurance companies, exchange bureaus, etc. Financial institutions have an economic role to play in respect to revenue rising. According to the CPA the Parties agree to have a dual banking system in Sudan during the interim period (CPA 2005). Specific duties were that an Islamic banking system operates in Northern Sudan and a conventional banking system operates in Southern Sudan – the parties agreed to establish – the Bank of Southern Sudan (BOSS) as a branch of the Central Bank of Sudan (CBOS). The CBOS uses and develops two sets of banking instruments, an Islamic and another conventional to regulate and supervise the implementation of a single monetary policy through an Islamic financing window in Northern Sudan to implement the national monetary policy in northern Sudan. On the other hand, the Bank of Southern Sudan (BOSS) aims to manage the conventional window using conventional financing instruments in implementing the same national monetary policy in southern Sudan. The BOSS is responsible for chartering and supervising financial institutions in Southern Sudan (see INC, 2005, p.123).

The change and reform of the banking system in Sudan as reinforced and strengthened through implementation of the CPA is instrumental in terms of the development of the financial sector in the Southern Sudan. It has enabled the Southern Sudan to establish the Nile Commercial Bank (NCB) with branches in Wau, Malakal, Bor, Rumbek, Khartoum and its headquarters in Juba. Another specialized bank due to a Southern Sudan-based initiative is the Ivory Bank in Khartoum. There are also exchange bureaus in Juba.

The Nile Commercial Bank has undertaken its role as a financial institution through giving short term loans and advances to individual businessmen and private sectors. It accepts deposits, deals with credit or creates credits by making advances out of money or funds received as deposits to the investors and merchants. It provides loan on interest to businessmen or individuals who need the loans for investments or productive uses – loans for its customers are short term.

This illustrates that the NCB as a commercial bank – is a financial institution dealing in money, accepting deposits from the public, and creating credits for lending and investment hence as well as causing changes in the quantity of money in circulation. This influences the nature and the character of production in the economy - many merchants are investing into service sectors e.g. the running of mini-buses, restaurants, cafeterias and hotels.

The credits and advances will surely result into industrial innovations and business expansion in the Southern Sudan. Finances provided by banks represent capital and it is an important factor of production. If credits do not exist, entrepreneurs are likely to be helpless since they lack adequate funds for productive purposes hence the private sector is handicapped resulting to limiting tax-base.

This implies that the role of entrepreneurs and producers largely depend on credits, issued or allocated and utilized in the process of economic development. Bank credits or loans enable the entrepreneurs or producers to increase productive capacity and to improve working conditions in the economy. The absence of financial institutions in the past exacerbated the underdevelopment in the Southern Sudan. Hence, fiscal policy should encourage trade and micro-credit programs to stimulate development. The role of banks and financial institutions to support the private sector is important in the context of the fiscal policy in any economy.

#### **4.2. Private Sectors**

The private sector of the nation's economy consists of all business that exists outside the state. It includes profit and non-profit enterprises, corporations, banks other than central banks, any other non governmental organizations as well as individuals not employed by the state. Others think that the private sector is the part of the economy that is owned and controlled by private individuals and business organizations such as private and public limited companies. The private sector has been a weak sector in the Southern Sudan since independence unlike in the Northern Sudan. To make it work we need a *market approach to development thinking* including micro-finance, credit provisioning at soft terms. The example of the Asian Development Bank (ADB) is relevant in the Southern Sudan. ADBs' argument implies that the development of the private sector is the key issue and hence, the private sector development is crucial to economic growth, because sustainable economic growth creates jobs and can reduce poverty, and the expansion of the private sector increases the tax base for the delivery of social services. This is in common sense with the CPA principles of revenue sharing. Along the above line of argument, areas where private sectors could flourish would be interstate commerce, boarders' trade, government of the Southern Sudan enterprises and projects, medium business activities etc. If we examine the revenue allocations aspects, most of the tax sources as provided by the CPA and INC are comprehensively designed to tape revenues from the private sector. In more precise words the sources of revenues for the GOSS and States include: The national revenue allocation to the GOSS and states/regions, the Southern Sudan Reconstruction and Development Fund (SSRDF), oil revenues, Southern Sudan government

taxes, service charges of the GOSS, GOSS enterprises and projects, grant aid and foreign aid, taxes and levies on small and medium business, personal income tax, loans and lending in accordance with the monetary policy, banking, currency and any other taxes. Also state/regions are designed to collect state/regional land and property tax and royalties, services charges, licenses, state/regional personal income tax, levies on tourism, state/regional share of oil revenues, state/regional government projects, stamp duties agricultural taxes, grant-in-aid and foreign aid, excise taxes, border trade charges or levies, any other taxes, loans and lending-monetary policy, banking currency etc (CPA, 2005; INC, 2005).

## **5. Conclusions and Policy Implications**

### **5.1. Conclusions**

In Sudan there has been a conflict that could be broadly looked at five dimensions: economy, power, religion, culture and ethnicity and race. Our focus is the economic dimension. Economic issues are involving wealth and revenue sharing. Financial resources form the largest portion of the Sudanese wealth. Finances are usually allocated in terms of revenues, grants in aid and development funds. The minor problem is that development funds and financial resources allocated and transferred to the Southern Sudan other than 50% oil revenues were far below the budgetary and development requirements and financial needs of the Southern Sudan – implying that economic resources and benefits were not shared equitably. This resulted into the conflict and eruption of war in 1950s and 1980s. Moreover, oil discovery in the late 1970s exacerbated the conflict between the central governments in Khartoum and the Southern Sudan. This was evidenced by the re-drawing of state boundaries in 1980s. Places with oil resources in southern Sudan were renamed: Bentiu was called Unity State etc. But the Comprehensive Peace Agreement has been a turning point. The transfer of 50% oil revenues has been consistent. The transfer of 50% non-oil resources, grants and donor funds for reconstructions and development remain a question needing urgent concern.

As a result we explained in Section 2 the conflict emanating from the inequitable distribution of revenues. Allocations and inequitable distribution of revenues has eroded the central government and states fiscal relationships. GONU fiscal policy has some deficiencies. For instance in overview, the 2006 budget showed that 61.0% revenues were allocated to the GONU whereas GOSS was allocated 16.0% only and transfers to northern states was 22.3%. Under Section 3, we discussed the main issues related to discovery and exploitation of oil in Sudan and change, whether oil revenues and non-oil resources are sufficient to cover recurrent and development expenditure of the GOSS, whether oil revenues and actual transfer of



50.0% is flowing to GOSS etc. was explained. We indicated that the share of oil revenues was determined by quantity of oil production and export of crude oil. The calculation was usually on the basis of the CPA criteria. We have pointed out that bulk of oil revenues was spent on salaries but although employment is one of the instruments for poverty reduction, it is important to note that oil revenues should be used for development of agriculture and other sectors of the economy to stimulate sustainable economic development in the southern Sudan. In this section we have also explained that states in the Southern Sudan expressed dissatisfaction of oil revenue with regards to GOSS, oil companies, counties and the states producing oil in the Southern Sudan. An increase in their share to increase their incomes calls for a review of the shares. Section 4 dealt with resources allocation and financial sustainability at GOSS level. It is argued that financial and private sector could play an instrumental role and surely a source of tax-based growth and financial sustainability of any economy. Banks like the Nile Commercial Bank could create credits and provide loans to entrepreneurs and would in turn help the entrepreneurs to increase productivity and to establish commercial and business projects that could enhance government ability to increase its revenues through taxation. Strong and large private sectors will lead to a mobilization of large financial resources by the government through enactment of efficient tax laws or fiscal policy.

## **5.2. Policy Implications**

### **5.2.1. The Government of National Unity (GONU)**

There are some important implications with regard to revenue sharing. One implication is that revenue allocations by GONU were not based on actual revenue collected. Both revenues and expenditure allocations were mere estimates. This is misleading. It seems that resources are underestimated or overestimated; this could hinder smooth management of taxation. This would explain why the central government and states/regions fiscal relationship were uneven resulting to underdevelopment of the Southern Sudan and imbalanced development of various states or regions in the Sudan. It would explain also why transfers of development funds were neither prompt nor adequate for the Southern Sudan. Worse still, it affirms that oil discovery and its exploitation resulted to less improvement in the Sudanese economy and particularly the Southern Sudan.

### **5.2.2. The Government of Southern Sudan (GOSS)**

GOSS is dependent on oil revenue only for recurrent expenditure. A transfer of 50% non-oil resources is not realized by the GOSS and therefore, reconstruction and development pro-

grams aimed to reduce poverty in the Southern Sudan is not accomplished. The goals of pro-poor GOSS budget for 2005 and 2006 have not been achieved. While the sources of revenues provided by the CPA are adequate there is an urgent need to mobilize them effectively and efficiently through an enactment of GOSS tax laws and support of private and financial sectors in the Southern Sudan as means to ensure the broadening of tax and revenue basis. Of crucial importance is the transfer of 50% non-oil revenues and flows of MDTF funds to the GOSS to meet reconstruction and development at its level.

Finally, we have clearly pointed out in the paper that GONU budget and fiscal policy should be formulated on the basis of the CPA. Also transfers of non-oil revenues should be affected as stipulated by the CPA and the Interim Constitution of the country. The CPA is a useful package of development policy crucial to be adopted.

Briefly, the package for economic and fiscal policy should include:

1. Economic policies that enhance reconstruction of economic governance on the basis of:
  - The framework for sharing wealth should be established in accordance to the CPA guiding principles for wealth and revenue sharing.
  - The formula for sharing the revenue for oil resources provided by the CPA need to be maintained and used to benefit all states in the North, West, East and the Southern Sudan in particular.
2. Strong fiscal policy is crucial and should encompass the following guidelines: Fiscal policy or budgetary guidelines that are efficient to allow prompt transfers of non-oil revenues, development subventions and grants to the next levels of government (GOSS, states/regions) should be created on the basis that:
  - Efficient assessment and estimation of revenues and resources to avoid underestimation and loss of revenues.
  - Efficient and effective tax management that ensures collection of adequate revenues and discourage tax leakages or corruption.
  - Strong commitment to adopt formula developed by fiscal and financial allocations and monitoring commission framework to distribute resources vertically and horizontally to ensure equity in wealth and revenue sharing or to effect enforcement of the CPA wealth sharing and revenue sharing guiding principles effectively.

- Taxation system should be one that encourages and stimulates development and economic growth and support the GOSS pro-poor budget and reconstruction. To do this GOSS tax laws enactment is crucial in the Southern Sudan to complement oil revenues.
  - Formation of anti-corruption programs at GOSS level is useful economic policy. There must be a commitment in regards to the principles of accountability and transparency as an effective instrument to reduce or combat wastage of financial meager resources. GONU should establish similar institution to back-up Audit Chamber which already exists.
  - Efficient control of oil contracts should result to increased mobilization of resources of the GONU and GOSS.
3. Deliberate and strong support to the private sector is crucial to stimulate investment, generate savings and capital formation necessary for reinvestments in order to the enhancing economic development and sustained growth. The commercial sector has been weaker in the Southern Sudan compared to Northern Sudan since 1956-2004.
- Aggressive economic policy is needed to initiate and improve private sector as a strategy to create entrepreneurial skills in business at both wholesale and retail sectors.
  - Building up a financial sector through GOSS support to create financial intermediaries which in turn develop projects of micro-finance and provision of loans and credits is immediate and healthy for rapid economic growth and development in Southern Sudan in particular.
  - The Nile Commercial bank with its headquarters in Juba has already taken an initiative towards development of private sector and GOSS should facilitate and support this sector fully.
  - Efficient and effective control of licensing in local trade or boarder trade and with multinational companies operations is inclusively and likely rewarding in economic context.

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**Appendix 1: Committee Members (Ministry of Finance and National Economy, Petroleum Unit) to assess the GOSS Share from Crude Oil Revenues (August 2005)**

1. Elshaikh Mohammed Elmak	-	MOF
2. IzaakMakour Atur	-	GOSS
3. Hamad Elneel Abdulgadir	-	Ministry of Energy
4. Francis Latio	-	GOSS
5. Mohammed Elftih Bikk	-	MOF
6. Moses Mabior DBU	-	GOSS
7. Simon Kimon	-	GOSS
8. Mohamed Abdalla Alno	-	BOS
9. Yousif Ramadan	-	GOSS
10. Muna Elsyed Abu Haraz	-	MOF

**Appendix 2: Monthly Production from the Southern Wells (2005, million barrels)**

<b>Item</b>	<b>Block " 1A "</b>	<b>Block "1B"</b>	<b>Total</b>
<b>January</b>	3,513,400	1,408,220	4,921,620
<b>February</b>	4,242,854	1,768,498	6,011,352
<b>March</b>	4,989,026	1,876,178	6,865,204
<b>April</b>	4,682,475	1,828,267	6,510,742
<b>May</b>	4,423,696	1,867,372	6,291,068
<b>June</b>	4,408,540	1,829,483	6,238,023
<b>July</b>	4,299,441	1,650,010	5,949,451
<b>August</b>	4,319,707	1,808,880	6,128,587
<b>September</b>	4,076,751	1,857,784	5,934,535
<b>October</b>	4,024,523	1,979,790	6,004,313
<b>November</b>	3,927,476	1,906,172	5,833,648
<b>December</b>	4,032,704	2,034,791	6,067,495
<b>Total</b>	<b><u>50,940,593</u></b>	<b><u>21,815,445</u></b>	<b><u>72,756,038</u></b>

**Appendix 3: Quantities of Oil Production from Southern Wells and Northern Wells, (August 2006, million barrels)**

<b>Block</b>	<b>Production</b>	<b>Subtotal</b>	<b>Total</b>	<b>Remarks</b>
<b>1B</b>	1,782,971			
<b>1 A</b>	3,443,739			
		5,226,710		Production from Southern Wells
<b>2 B</b>	1,234,095			
<b>2 A</b>	535,018			
<b>4</b>	1,128,153			
		2,897,266		Production from Northern Wells
			8,123,976	

Note: Sources are Table 3 plus additional data concerning production of crude oil in Sudan.

In Appendix 3, Blocks 2 B, 2 A and 4 show the quantity of oil produced from Northern Wells in August 2006. In short, Blocks 2 B, 2 A and 4 are located geographically in Southern Kordofan State which means that it falls under the share of the Government of National Unity(GONU).

Appendix 2 consists of data about blocks 1B and 1A, indicating the quantity of oil produced from the Southern Sudan Wells, specifically in (Northern) Upper Nile/Unity States.

# **A Framework for Economic and Social Development in Southern Sudan: Implications for Oil and Water Management and Resource Politics**

Samson S. Wassara

## **Abstract**

*The Sudan is so fortunate to be endowed with both renewable and non-renewable resources in the form of water and oil. Substantial quantities of these resources are found in Southern Sudan. Water and oil contribute to socio-economic development in countries that pursue rational utilization policies. Nevertheless, water and oil have contributed more to the conflict in the Sudan. The Comprehensive Peace Agreement (CPA) signed on 9<sup>th</sup> January 2005 is expected to create a peaceful environment that might ensure exploitation of water and oil resources for the development of Southern Sudan after decades of war-related destruction. The purpose of this paper is to examine how rational water and oil policies could consolidate the fragile peace in terms of service provision to the impoverished population of Southern Sudan.*

## **1. Introduction**

The combination of water and oil resources has potential for socio-economic development in Southern Sudan. Water is a renewable natural resource that has remained untapped because of chronic political instability since the independence of the Sudan. Oil is a new phenomenon that contributed to the aggravation of an already existing conflict since its discovery in late 1970s. Oil had intensified the conflict in Southern Sudan in the 1990s because the parties to the conflict regarded its control as the key to overcoming one another. The post-conflict rational use of these resources could contribute to the uplift of Southern Sudan from the prevailing poverty that had been imposed by the persecution of the civil war. Hence, the key assumptions of this study are twofold: (i) The combination of water and oil resources has the potential for socio-economic development of Southern Sudan; and (ii) rational resource governance could uplift Southern Sudan from the prevailing poverty that had been imposed and accentuated by lengthy war-time policies during decades of the civil war.

Concerning water, it is vital for the survival of human beings because it sustains livelihood of different users. It appears to be abundantly available for all, but this is a fallacy because its uses are being diversified as the society develops. This fact applies to the situation of Sudan in relation to the shift from traditional uses to modern uses of water resources. Climatic condi-

tions of the country, the cultural divide and incompatible economic interests tend to make water an issue of tension and sensitivity in different sectors of Sudanese communities. In other words, water is a source of conflict in Sudan. This natural resource adds another dimension to the wider political conflict. It was an underlying cause of the conflict after the Addis Ababa Agreement. The Jonglei Canal was the target of early Sudan People's Liberation Army (SPLA) operation in 1983. The questions considered for understanding issues are to what extent is water an integral part of conflict transformation in Sudan? How could water be integrated into socio-economic policies of post-conflict development? This presentation is intended to provide highlights on relationships built around water in the pre-CPA period and how these relationships could be reversed to contribute towards economic and social reconstruction after a protracted conflict.

Water has a longer history in the development ambitions of the Sudan since the colonial period. This could be seen in the number of agreements concluded during the colonial period dating back to the 18<sup>th</sup> century. The past and existing agreements made water an international affair involving riparian states of the Nile basin (Banaya, 1985). But national water management is an issue, which makes the object of this paper. Southern Sudan has been entangled in civil to the extent that only a very minute proportion of space had been accorded to water management in Southern Sudan. Water resources are abundant in Southern Sudan, but with very low utilization. The White Nile, the Sobat and Bahr el Ghazal with its tributaries descending from the Nile-Congo divide plateau converge in Southern Sudan to create the largest wetland in Africa called the Sudd. A wetland is the static or slow flowing freshwater popularly known as swamp (Hughes, 1996). The Sudd is the eco-system that provides linkages between people, domestic animals, wildlife and fish in the water. Some experts in fisheries consider the Sudd region of Southern Sudan with a gigantic fish farm in the sense that the regular rise of the river and inundation of the swamp is followed by natural draining. This firstly creates a productivity breeding ground, and then concentrated fishing areas (Mishrigi, 2002). The traditional use of water in Southern Sudan is very visible in the areas surrounding the Sudd. This hydrographic space is witness of grazing livestock, watering domestic animals and fauna. It is equally the area for hunting (Wassara, 1999).

The Sudd is also exposed to modern uses of waterway such as navigation and drainage for the improvement of agriculture outside Southern Sudan. The alienation of this region from the participation in policy planning puts it at disadvantage in short- and long-term water policy development for socio-economic development. How could Southern Sudan be assisted to make water an instrument of socio-economic development? This is one of the questions that



have to be answered for the sake of enabling the Government of South Sudan (GOSS) to make water a tool of development.

Oil is a new factor in the long conflict that started before the independence of Sudan in 1956. Oil is a new factor in Sudan's conflict because its discovery and the policies related to its exploitation brought about an overt political conflict between the central government and the defunct regional government in 1982. The conflict was conducted about the policy on the location of a refinery, on readjustment of provincial boundaries in the oil area and the carving of Unity Province from Upper Nile. Like water, oil is also considered an immediate cause of the civil war that erupted in the Sudan in 1983. Oil exploration started in the 1970s and progressed in Southern Sudan in the 1980s until actual production started in 1998. Petroleum production is on the increase in Upper Nile with the current quantity of about 500,000 barrels per day. A number of multi-national companies are involved in this sector. However, Southern Sudan is currently a passive recipient of the proceeds because it has just emerged from violent conflict.

The issue to consider in this paper is that the CPA provides the basis of sharing the oil proceeds in the Sudan where Southern Sudan is receiving 50% of the net product. Two questions that come out frequently are first, what can water resources offer to enhance socio-economic development of Southern Sudan? And then what can oil offer to ensure that water resources contribute to sustained socio-economic development of Southern Sudan? The other secondary question concerns what policies could prove security friendly during the period of population mobility (returns, resettlement, rehabilitation and reconstruction) to maintain a reasonable level of social stability susceptible to the creation of development environment? These questions might help policy makers in formulating policies that would make the productive use of oil an instrument of economic and social development. In all, water is less important than oil in the CPA. This will be seen in the space given to each of the two natural resources in power and wealth sharing arrangements stipulated in the Agreement. In short, the purpose of this paper is to examine how water and oil could support, strengthen and accelerate the development of these natural resources for the improvement of livelihoods of communities in the post-conflict period.

## **2. Research Design and Methods of Analysis**

Our research design outlines the plan and strategy we have used to investigate the correlations between water and oil in the process of reconstruction and development in Southern Sudan. It specifies the methods used to collect and analyze data without necessarily attempting to get

bogged down by statistical analysis. For this reason, this research concerns policy issues that do not lend themselves into quantitative analysis. The purpose of the research is to explore interactions between two abundant resources and the likelihood of their contributions to improving people's lives that are getting to normal after a sustained armed conflict. Interaction design (Christensen, 1994) has been used to identify the potential interactive effect of the two key variables that are water and oil. In order to isolate the interactive effect of the two variables from the effect that would be achieved only by one variable, we chose to analyze the influence of each variable separately and in combination. Further, correlation techniques were used to analyze the degree of relationships between water and oil. This research demonstrates how the two variables relate and how the strength of the two variables would determine directions of policies susceptible to future long-term reconstruction and development of Southern Sudan (Mugenda, 1999). Documentary methods reinforced our analysis of issues through causality, content analysis of historical facts and content analysis. But observation played an important role in the research because the author travelled to Juba to experience life after the CPA.

### **3. Water and Oil in the Politics of Development**

The CPA is the symbol of conflict transformation of the long civil war that has devastated the Sudan and more the Southern Sudan in several decades since independence. It is based on power and wealth sharing between the Southern Sudan and traditional Northern Sudan. Nevertheless, the agreement stipulates also conflict resolution between the marginalized regions of South Kordofan and Blue Nile. The CPA addresses the contested territory of Abyei, which is claimed by both Southern Sudan and Northern Sudan. The signatories of the CPA recognize that imbalances in power relationships, underdevelopment and marginalization had played a key role in the long civil strife. Now that an agreement was reached in January 2005, Southern Sudan faces the challenge of spearheading economic and social development. It will need to harness the apparently abundant natural resources to accelerate development of the region impoverished by civil wars. The natural resources we are considering here are water and oil. The former is renewable while oil is non renewable and it has its limits as a factor of development. The CPA contains both of them in its power sharing and wealth sharing provisions.

### **3.1. Water in the Normative Arrangements**

Water would be given less prominence than oil-related issues in the CPA because oil is the immediate source of money. The CPA document justifies this assumption. However, water will play a more long-term role in the development if the oil resources are utilized rationally to invest in water infrastructures that could contribute to economic and social development. It is important, at this juncture, to examine the place of these natural resources in the CPA.

Water is not considered in the CPA as national wealth, but a source of power. It is treated under power sharing in the Agreement and in the Interim National Constitution (INC). This is testified by the references to water in the schedules A, B & C of power sharing in the CPA and the INC (CPA and INC, 2005). Both the Government of Southern Sudan (GOSS) and the ten states have power over water within their areas of jurisdiction. They can use water and regulate disputes that may arise over water utilization for economic and social development. However, the management of the Nile waters and trans-boundary waters are under the national powers, but can be managed jointly as spelt out under concurrent powers. In this respect, references to water under the jurisdiction of Southern Sudan in the CPA and the INC allude to:

- Generation of electricity, water and waste management services,
- River transport and corresponding works,
- Irrigation and embankments,
- Water resources other than interstate waters,
- Regulation of disputes arising from the management of interstate waters strictly within the Southern Sudan.

### **3.2. Oil in the Normative Arrangements**

Oil resources are the immediate means for the sustainability of the infant GOSS in terms of the establishment of government institutions, capacity building, mechanisms of operation and socio-economic development. The GOSS has a very limited tax base for generating revenue to finance its businesses. So, the INC (Art. 192.1, 2005) in the section of guiding principles stipulates, “the framework for sharing wealth from the extraction of natural resources, emanating from Southern Sudan shall balance the needs for national development and reconstruction of Southern Sudan.” (INC, 2005) Article 190 (b), (d) and (f) of the INC recognizes the roles of community consultation and participation in the management and development of the petroleum sector *inter alia*:

- Empowerment of appropriate levels of government to develop and manage (in consultation with relevant communities) the various stages of production,
- Persons enjoying land rights shall be consulted and their views shall be taken into account and they shall share benefits of that development,
- Community participation in negotiations of contracts through their respective states.

#### **4. Issues in Policy Formulation for Natural Resources**

The translation of the normative arrangements into doable programmes could only be seen in policy inputs and plans of action. The GOSS has taken action to translate the principles of economic and social development in the CPA into a policy statement delivered to the Southern Sudan Legislative Assembly (SSLA) on 10<sup>th</sup> April 2006. The First Vice President and President of the Southern Sudan, in his policy statement, stressed the importance of economic recovery, which should address issues of poverty eradication as stated in the Millennium Development Goals, equitable income distribution and redressing imbalances of incomes within Southern Sudan (GOSS, 2006). The content of the Policy Statement underlines the importance of the key sectors of development such as water resources and irrigation; agriculture and forestry, livestock and fisheries, cooperatives, industry and mining, energy, transport and capacity building as cross-cutting strategy for all the sectors of development. Some of the sectoral policies linking water and oil that come out clearly in the Policy Statement are:

- Promotion of activities in areas of agriculture and forestry, livestock and fisheries, irrigation and water resources, wildlife conservation and tourism, in which the use of water will be a decisive factor. These activities will contribute to food security and income generation for running the state and improving household and community incomes.
- There are plans to initiate dredging works in the River Nile waterway and the 15 ports between Kosti and Juba. The restoration of transport infrastructure will stimulate economic development and the return and resettlement of internally displaced persons (IDPs).
- Setting up oil refineries in locations, which shall be accessible to the largest number of towns and population centres. Oil fuel supplies will be a crucial factor in the ambitious programmes of economic and social development.
- Government plans to update existing feasibility studies for the construction of hydroelectric power projects at Fulla and Badden falls south of Juba to address an increasing demand for energy.

Developmental social policies are always abstract and ambitious unless backed up by concrete plans of action. So many things mentioned in the Policy Statement are difficult to achieve in one-year timeframe. In effect, the GOSS dispelled scepticism by unveiling a 200-Day Action Plan as a means to monitor and follow up the implementation of programmes emanating from the Policy Statement. The Plan specifies a limited number of priority policy actions, programmes, projects and activities that the government is committed to complete by March 2007 (Mayardit, 2006). The selection of programmes, projects and activities to be included in the Plan were based on a number of criteria as stated below:

- The programme may be a physical infrastructure project, service delivery improvements, policy articulations or institutional development;
- All selected activities must impact positively on the quality of life of the people;
- The programme selected must respond to priorities defined in the Government Policy Statement delivered to the SSLA on 10<sup>th</sup> April 2006;
- All selected programmes must have the necessary funding allocated under the 2006 Budget approved by the SSLA and will be the highest priority activities that will be implemented in case of any shortfall in the government revenues; and
- The targets defined must be suitably modest so that they can be completed in the Action Plan period given the severe human and other capacity constraints faced by the government.

The Policy Statement and the Plan of Action have the bearing on management and utilization of natural resources. Rehabilitation of water installations, sewage and sanitation in the nine state capitals and the seat of government in Juba, rehabilitation of educational institutions, development of agriculture and forestry, livestock and fisheries, irrigation and water resources, wildlife conservation and tourism implies formulation of rational policies of water utilizations. The policy statement is a declaration of intention for short-term planning. The GOSS needs to look beyond these priorities to design a long-term plan and strategy in which water and oil could be complementary to one another for sustainable social and economic development.

Our interest in the statement should focus on the institutions that could take lead in water-related ministries. It means that the GOSS has to pull together the ministries of water resources and irrigation; agriculture and forestry; animal resources and fisheries; environment, wildlife and tourism and finance and economic planning to work as a team in designing poli-

cies that would ensure the interplay between development and natural resources such as water and oil revenues.

## **5. Policy Implications for Water and Oil**

Water and oil could be a lifeline for Southern Sudan, helping to accelerate social development and to fund critical reconstruction needs. These resources need to be well managed to support sectoral development. Developing these resources appears to offer a base for economic recovery as stated in the Plan of Action. There is the urgency to formulate post-conflict development policies that address the severely damaged physical infrastructure, poor economic performance resulting from the lack of capacity and a weak inexperienced civil service. Since the GOSS has very low income and limited government taxable businesses, oil revenues are the only income for economic and social reconstruction. This is an indicator for the GOSS to utilize the oil income for the immediate expenditure and saving for the future generations. It means that there should be investment in water resources to prop agriculture, livestock, forestry, fisheries and eco-tourism among others. Only oil can make this happen in the next five years or so if there is a strategic action programme supported by subsidiary action programmes. The strategic action programme should be composed of shared vision and actions for the realization on the ground. The subsidiary action programmes consist of plans of implementation on the ground at the lowest appropriate level, taking into account benefits and effects of planned activities on water users in the river systems of Southern Sudan. In this respect, oil resources are more a means for investing in water-related development.

### **5.1. Water Sector**

Development of water management has a historical weakness in Southern Sudan. The weakness can be attributed to the fact that the River Nile has been the domain of international treaties that connected only the central governments to Egypt and now to other riparian states of the Nile basin. Southern Sudan as well as other riparian provinces and communities had undergone the same fate. They had little on national water policies. There are several water resources management possibilities such as fisheries development, management of wetlands, eco-tourism development, irrigation and drainage, hydropower and water quality managements that have great potentials in Southern Sudan. This region has the power stated in the CPA to utilize these water resources for development. These resources can be included into a strategic plan and subsidiary action programmes for the economic recovery in the post-

conflict period and in the long-term planes of development. This can only happen if the GOSS takes necessary and sufficient policy measures at this particular moment.

### *Selected Issues on Water Policy*

The institutional structure for the utilization of water resources is usually shaped by political and administrative bodies. However, the historical role of water in national development and perceived desires of the diverse actual and potential users has to be taken into consideration. The GOSS has taken the front seat in the management of water resources in Southern Sudan for the first time in recent history. The institutions of water management such as National Water Corporation were directly controlled by central governments in Khartoum. This development has its challenges to which researchers should draw attention of policy makers in the GOSS, state governments and counties. There should be a channel for enabling the participation of communities in the process of water policy development.

The first issue in water policy should be the establishment of regulatory mechanisms for water management and utilization. There are rules and laws governing the assessment, development and the use of water resources. They specify requirements of legal entitlements of water utilizations in terms of internationally recognized practice and of municipal laws governing the use of water and water resources; water utilization requirements for the present and the future within the general policy framework and principles of equitable sharing and cooperation; the regulation of boundaries between the water system and the user system covering different phases of planning, construction and operation of water infrastructure. The most applied forms of water regulation take into consideration water utilizations concessions, established prior water use, pollution control and tariffs to recover capital and operating costs.

The legal bases for water resources exploitation are the way forward for the control of other factors that govern the use of water. Any water use that ignores water laws and administrative procedures may cause more problems not to the water management body alone, but also to the exploitation of other natural resources and the environment. There are a variety of problems associated with the use of water and development, including social conflicts caused by the diminishing water supply and an increasing water demand. This situation, combined with the impact of water-related technologies on the resource itself, calls for an adequate response from lawmakers.

There are two main considerations that are necessary and sufficient conditions for the legal administration of water resources:

- Firstly, all water distribution and use must reconcile quantitative and qualitative requirements with acquired rights; and
- Secondly, the legal arrangements must take into account existing and future water variations, excesses and shortages in order to avoid conflicts and disasters.

The second issue is related to the establishment of institutions that should govern the use of water at the different levels of governance in South Sudan. The institutional framework for water management is an important aspect of policy-making. The role of institutions is critical in the establishment of rules and legislation on the exploitation and the use of water resources. This requires multi-sectoral planning and development policy in the framework of macro-economic planning. The exercise will provide the projected water needs for agriculture, fisheries, drinking water supply for humans and livestock, the environment and tourism, industry and power generation among others. Characteristics of water policies depend on the types of water resources institutions in a hydrographical space. Loose and uncoordinated institutions result in fragmented policies with contradicting water interests. Many authorities advocate for water commissions or boards that are endowed with powers on over-all policy-making and coordination with other agencies, public corporations and units of relevant technical ministries.

Southern Sudan has a lot of challenges in its desire to utilize its share of water resources as spelt out in the CPA and as projected in the policy statement of the GOSS. One problem is that the CPA is less articulate on the share of water compared with the share of oil in the wealth sharing arrangement. In this respect, the GOSS will need to streamline water management, which has fragmented competencies among different ministries. For example, Water Resources and Irrigation; Animal Resources and Fisheries; Rural Development and Cooperatives; Transport and Roads; Industry and Mining; Environment, Wildlife and Tourism have roles to play in the management of water resources (Imu, 2006). These ministries are responsible for many aspects of water use such as water prospecting and extraction; geo-physical and hydro- geological studies; village and pastoral water projects; fluvial transportation; urban water projects among others. The formulation of comprehensive water policy must include the ministries, the States, the Counties as well as relevant committees in the SSLA. The institutional setting for the management of water resources in Southern Sudan requires a strong coordinating mechanism rather than depending on a single body like the Ministry of Water Resources and Irrigation.



The third issue concerns institutional capabilities for water management in Southern Sudan. Managing water involves activities such as the preparation of water supplies, planning of water use, initiating projects for the improvements of water use and water conservation, coordinating water resources activities and even settling conflicts and disputes emanating from competitive uses of water in different sectors. Experts in water governance indicate that institutional capabilities should include knowledge and information bases through research and development to ensure timely availability of competencies and skills needed for the assessment of water resources, monitoring environmental degradation and hydrological disasters such as floods and droughts with special attention to climate change (Andah, 2006). The GOSS and state governments have the challenge before them of building:

- Capacity of institutions of water management in the areas of resource supply assessment and demand assessment. This implies evaluation of the quantity and quality of surface and ground water and determining water requirements for different uses and the development of alternatives.
- Information management and decision making tools. This involves principles, policies, and procedures on the creation of modern communication systems to ensure sharing information regarding planning, execution of works which may influence water characteristics; and
- Principles and policies regarding emergencies, disasters, aggression and conflict in the hydrographical space of water resource development. This is where environmental and social impact assessments and vulnerability assessments of ecosystems are examined and evaluated for the mitigation of occurrences before or whenever they occur.

The achievement of integrated water management in Southern Sudan will depend on the nature of political and social organization of the society. The introduction of decentralization of Southern Sudan into an overarching government composed of ten states is expected to generate different levels of interests and consciousness. It means that the GOSS should play the critical role coordinating and harmonizing actions of the different ministries and states in the management of water resources. Decisions on water use affect various interests and cover sectoral, organizational and regional issues. The sectoral interests involve availability of sufficient quantities of water for domestic use, irrigation, hydropower generation, transport and recreation.

Transforming water into an asset for economic development is an expensive venture. It needs special fund for that purpose, especially where hydropower is concerned. Hydropower has acquired the image of high risk and low return because of cost overruns, expensive schedule

slippages, high costs of decommissioning and corruption. The World Bank, which used to be the main financier of huge water construction projects in 1960s and 1970s, seems to be reluctant to support such projects since the 1990s. Southern Sudan is fortunate to rich in oil revenues that could ensure the implementation of water projects of relevant scales to the demand of the people. It remains to be seen how prepared government structures in Southern Sudan are capable to assume the roles of making water an instrument of economic and social development in a society consumed by prolonged war, anarchy and social confusion.

## **5.2. Oil Sector**

Financial flows from the oil industry are a lifeline for the post-conflict Sudan. The marginal regions of the Sudan were damaged by the civil war. For this reason, oil revenues are critical for funding reconstruction needs. Southern Sudan has seen a rapid increase in oil exploration initiatives since the signing of the CPA in January 2005. The past of oil production was associated with negative events such as forced displacement of tribal communities from their traditional lands of origin swelling the number of IDPs in the transitional areas between the Southern Sudan and Northern Sudan, in other northern states and leading to a high concentration in Khartoum State. People hope that the oil will contribute to IDPs return and social reconstruction in the areas of return (Refugees International, 2006). Documented sources indicate that oil exploration prevent returnees from reaching and recognizing their original villages in Northern Upper Nile. Southern Sudan operations demonstrate heavy dependence on oil revenues. This is a delicate situation, which requires rigorous planning and management of the oil money. The GOSS could face real problems if necessary mechanisms are not put in place to monitor oil revenues accruing to Southern Sudan in a transparent way.

Potential damages that result from dependence on oil alone as the source of revenue could be checked by lessons learned from other African countries that have been in the oil business for a long time before the Sudan. Lessons learned to reveal the following facts:

- Oil exports maintain the currency at an artificially high rate, undermining the agricultural sector. This can be a problem for agricultural development in Southern Sudan, which is basically a rural society depending on subsistence agriculture.
- Extreme dependency on oil revenues could cause a sudden contraction in the government budget because of fluctuation in the world prices resulting in a socio-economic crisis.
- Benefits of the oil production accrue to a very small section of the population, especially politicians and government officials. The political parties and governments that

wield power tend to gain disproportionate power that undermines democracy. This situation creates conflicts between communities and the government over the alienation of land from communities, both for drilling sites and pipelines (The Ogoni in Nigeria is a classic example. In Southern Sudan, this situation resulted in outcries from human right groups over the forced displacement of local communities in Unity State and Northern part of Upper Nile State).

- Oil companies often respond to problems of local instability by militarization including the support of local militia or money for the protection to armed groups active in areas wherever they work. This has happened in Southern Sudan as well as in other countries including Angola.
- Rulers of oil-rich countries suddenly believe they have inherited unlimited wealth. These have the tendency to make bad economic decisions. They think that the money will last for ever, and resort to bad investments and corruption.

#### *Selected Issues on Oil Policy*

While the distribution of oil resources in the framework of wealth sharing was treated in the CPA, the problem of management of the oil revenues is left in the hands of the GOSS. The provisions of oil sharing takes into account the compensation of the producing regions and the management of volatility in terms of Oil Revenue Stabilization Account. The CPA means the flow of substantial revenue to the GOSS to finance reconstruction of the region. Reports indicate that management of the financial flows from the oil industry poses many problems (World Bank, Bacon/Tordo, 2006, pp.3-4).

One of these problems is the lack of experience in dealing with the oil sector. Post-conflict political entities with a weakened and inexperienced civil service, especially those with no experience in the oil sector, face problems in managing natural resources such as oil. The outstanding issue is the understanding of the government's entitlements. Contracts between a political entity and private companies are often complex. Contracts negotiated during the conflict may be unfavourable to the government or a dominant political entity because they are negotiated to persuade private companies to take risks during the period of uncertainty. A lack of understanding of the psychology of private oil companies may lead to a commitment that would prove to be disappointing at a latter stage when the public resents the resource for the simple reason that private companies harvest more benefits than the government (World Bank, Bacon/Tordo, 2006, pp.2). The situation is applicable to the oil in Southern Sudan be-

cause both the central government and the SPLA took it upon themselves to compete in the award of contracts to oil companies.

Southern Sudan invested its efforts to compete with the Central Government. This can be seen in the award of contracts that generate conflict. For example, the contract awarded to White Nile Company by the SPLA is subject to controversies between the Government of National Unity and between them and the French Total oil company. Nevertheless, these issues call for the understanding of oil contracts and entitlement of revenues. The complexity of contracts and resource payments to the government of Southern Sudan requires capacity building in the sector, to enhance better understanding of the flows.

The second issue in the management of oil in Southern Sudan is the multiple levels of tension in the society. There is a tension between the availability of oil wealth and the high level of poverty. The civil war had a devastating impact on the physical, economic and social infrastructure, which exacerbated the already impoverished region. The population of Southern Sudan is fixated on the expectation that oil is the magical solution to the alleviation of the endemic poverty. Hence, high dependence on oil and poor human development are interrelated. Also, there is a tension between short-term interests of the government leaders in Southern Sudan and the long-term public policy goals that should address expectations of the people. The 200-day plan of the GOSS mentioned earlier falls into this category of tension. It represents a short-term interest that would hardly produce the expected development outcome using the oil revenues accruing to Southern Sudan.

The third issue is the protection of the environment and matters relating to water quality. Oil production contributes to pollution that could be harmful to the other sectors of the economy such as agriculture, fishing and water for social services. This is a particularly serious problem in Southern Sudan because of major oil spills in the White Nile and Bahr el Ghazal would have serious consequences for populations in the oil producing regions and in downstream areas. Oil production is happening in one of the most important wetlands in the Sudan and in Africa. A delegation of the Industry and Mining Committee of the SSLA witnessed this situation in Unity State (Report SSLA, 2006). The Governor of the state informed the delegation that water separated from the oil and chemicals is not recycled and this situation threatens the environment for both humans and livestock. Taking note of this simmering problem, the GOSS should consider the cost of pollution in its planning for development. Some of the oil money should be set aside for combating pollution.

Finally, the issue of insecurity and conflict resolution should be part and parcel of oil management structures. Security and the rule of law can contribute to safe exploitation of oil re-

sources that could result in a steady flow of oil revenues to the GOSS. Ethnicity and conflict has affected the outlook of people relating to wealth during the last two decades. Wartime politics had fragmented people along ethnic lines. Ethnicity had been instrumentalized by the warring parties for proxy confrontations in different regions of the Southern Sudan. This situation had ethnicized oil resources, especially in Upper Nile. For example, the Nuers were made to believe that the oil in Southern Sudan is not a national wealth but their wealth. The oil producing areas in Southern Sudan were protected by the Nuer militia. They were shocked by the CPA oil sharing arrangements. This situation continues to influence ethnic behaviour vis-à-vis oil resource in Southern Sudan.

### **5.3. Policy Synergies of Water and Oil in Development Priorities**

The development of the water sector, like other sectors of the economy of Southern Sudan, should be an account for oil revenues. This account should not be entrusted into the hands of one ministry such as the Ministry of Finance and Economic Planning in Juba. The other stake holding ministries should be part of the decision-making in the use of the money deposited into the account. The functions of the account should be to ensure transparency of the oil revenue management; the stability and sustainability of oil-financed public spending; accountability of those making decisions about oil revenue allocation; and insulation from pressures to overspend for political reasons. In addition, there must be a single destination for all oil revenue payments. The recent scandal that struck the GOSS Ministry of Finance and Economic Planning revealed that there are multiple destinations of oil revenue into accounts in Khartoum, Juba and Nairobi. This revelation could be seen in the order of the interim Minister of Finance in the GOSS (Note that the 1<sup>st</sup> Vice President of the Republic and President of Southern Sudan has recently removed the political immunity from his Minister of Finance and Economic Planning to facilitate the investigation into corruption scandal in the use of funds in Southern Sudan). In order to minimize the risks of non-transparency in Southern Sudan, a law should be passed that requires all oil-related payments to be paid into the single account from which allocated expenditures are sorted out.

Another important policy issue is the commitment of oil revenues to development priorities. This is where the place of water resources in the development priorities of Southern Sudan should come out clearly. In order to avoid wasteful and politically motivated spending and to ensure the confidence of the people of Southern Sudan that their oil money will be used for their benefit, the law should commit percentages to national spending priorities. The law should provide a mechanism for protecting the Ministry of Finance and Economic Planning

from the inevitable pressure to spend the oil money on ill-conceived and wasteful projects and for ensuring that no single individual is capable of accessing oil funds. It is a common experience for oil producing countries to use oil revenues unproductively. This exercise limits the use of funds for private projects or for large increases in military and other security related expenditures. It is recommended that the SSLA should pass a law that strikes a balance between a short-term and a long-term plan for the development of Southern Sudan. This should target the Millennium Development Goals (MDGs) adopted by the United Nations. Based on this arrangement, the annual funding amount should be used first to finance priority projects identified in the plan agreed by the executive branch of the government and the legislature.

Transparency and public information are important ingredients of policy making in economic governance. Oil uses in Southern Sudan should be fully transparent. To this effect, a law must be enacted by the SSLA to establish transparency as a fundamental principle in oil revenue management. The law would reinforce the hand of policy makers and the public in monitoring use of oil revenues and the relationships between the use of oil money and the actual developmental activities. It would compel all the institutions with the authority to transact, allocate or disburse oil revenues to make public decisions in that capacity in advance of their actions.

The key innovations that might consolidate transparency are mandatory auditing and the creation of a public information office for disseminating policy application in regards to the use of oil revenue and development priorities. In principle, the auditor-general's responsibility to audit the oil revenue account of Southern Sudan is established and complemented by the requirement of the Ministry of Finance and Economic Planning to regularly enlighten the Council of Ministers, the SSLA and the media about the state of the money and what is being done by the implementing public institutions. The auditing requirement makes institutions liable to be exposed for any errors or wrongdoing that may happen, and thus increases the incentive for compliance. As for the public information office, it should not be a simple depository for official documents. It should be the institution of a legal requirement that all oil-related information be put in the public domain through mandatory filing whereby the office has rights to copies of a very wide range of documents. The law establishing the office should make sure that access should be made publicly available both to hard copies and to electronic versions of all relevant documents through the internet. The public information office would have the obligation to appear before the SSLA on regular basis to testify about the compliance of the authorities of Southern Sudan with the information disclosure provisions of the oil revenue management law.

Finally, the emergence of Southern Sudan from a long civil war will not enable it to engage immediately in ambitious hydropower projects and water-related constructions. As a kind of preparation for starting hydraulic projects, a project on saving and building a special reserve fund for the future use on the water projects should be initiated to ensure the exploitation of water resources, which are indisputably the accelerators of economic and social development. The reserve should be a sub-account of the main account of the oil revenues. The key principle is that the special reserve fund constitutes a financial asset from which the authorities in Southern Sudan can benefit in their dealing with financiers and contractors in the water resource sector. The fund must be protected in real terms from unscrupulous demands for money to be spent on unproductive and politically motivated projects. The special reserve fund should be protected by adding an annual amount that offsets the appropriate rate of inflation until time is opportune for the use of the fund on water resources. In this respect, there is a need for a law that should protect the fund from misuse by a future government.

## **6. Concluding Remarks**

Contributions of water and oil to the development of Southern Sudan depend on the political commitments of the signatories of the CPA and attitudes of political institutions towards positive change in the post-conflict period. There are still more sensitivities surrounding oil. The slowness in determining boundaries between the North and the South has implications for oil revenue sharing. Also, the inertia in making the Petroleum Commission functional provides a breeding ground for doubts and rumours about the oil revenue sharing. However, there are also growing public concerns about the way the GOSS is using the oil money. The suspension of the Minister of Finance and Economic Planning is an indicator of the doubt the public has in regard to financial management.

It is probable that similar sensitivities may arise when people begin to think about the development of water resources. This situation may become more complicated in the water sector because there is little mention about the modalities of water use like the case of oil. The revival of the Jonglei Canal Project and initiation of hydropower projects south of Juba as indicated in the Policy Statement of the GOSS may likely lead Government of National Unity (GONU) and other riparian states to invoke principles and rules of international water laws. It is too early to make these assumptions. What is important here is to alert policy makers and the public that time is not opportune yet to engage in huge investment in complicated water projects for agricultural and industrial use of water in Southern Sudan. There should be an adequate preparation starting with feasibility studies and the assessment of water demand of

different users and the systems of water use. But there is an urgent need to begin savings that would enable the implementation of water resource projects other than those for consumption and light uses.

In short, water and oil policies in the development of Southern Sudan need further exploration for an expanded research. Nevertheless, this policy paper has come out with findings that may not be necessarily recommendations. Based on our analysis of policy issues in the water and oil sectors, it was possible to come out with the following key results:

- Short-term policy planning is insufficient for meeting people's expectations for sustained development in Southern Sudan. The 200-day planning period is a fire brigade approach to development problems of Southern Sudan, which encourages ill-conceived projects.
- Water utilization requirements for the present and the future within the general policy framework and principles of equitable sharing and cooperation requires multi-sectoral planning and development policy in the framework of macro-economic planning in order to provide the projected water needs for agriculture, drinking water supply, the environment and tourism, industry, power generation, mining, forestry and fisheries among others.
- Information management and decision making tools should be based on clear policy and procedures regarding planning, execution of works that may undermine conflict in the hydrographical space of water resource development. This should be reinforced by laws of managing finances and ensuring transparency.
- Benefits of the oil production accrue to a very small section of the population, especially politicians and government officials and selected businessmen, a situation that could result in conflict between communities and the government over share and utilization of oil revenues.
- Oil provides revenue for Southern Sudan as specified in the CPA. The use of oil revenue can ensure political stability and trust of the people if there is transparency in the use for rehabilitation and reconstruction. Developing clear, simple and transparent legal and institutional frameworks for managing the oil money as well as money from other sources can consolidate peace.
- There are still wrong perceptions of ownership of oil and oil money, which is connected to wartime ethnic cleavages in Southern Sudan that must be addressed by the GOSS and state governments. Hence, the component of conflict resolution and peace building are still relevant in policy making.



- Contributions of water and oil to the development of Southern Sudan will depend on the political commitments of the signatories of the CPA and attitudes of political institutions towards positive change in the post-conflict period. There are still more sensitivities surrounding water and oil.
- The problem of water pollution from oil extraction is in most cases underestimated. This is a particularly serious problem in Upper Nile because major spills into the White Nile and Bahr el Ghazal rivers could have serious consequences for the Sudd wetland in Southern Sudan.

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## **Darfur Crises, the Hidden Picture**

### **Striving for Life, Local Institutions and Natural Resources Management**

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#### **Abstract**

*The main theme of this paper is the conflict in Darfur, the Sudan's westernmost region, and its interrelation with the livelihood problems (specifically agricultural production and marketing in traditional sector), natural resources management and local institutions in the region. The humanitarian disaster unleashed by the conflict in Darfur has led to the suffering of masses of people in the region. The escalation of the crisis has attracted the attention of the international community and the international media. Much is being written about the ongoing civil war in the region. Much is being written about the brutal inter-tribal fighting, which is manipulated by the central Sudanese authorities and the masses of people who died or fled their burned villages. However, much less is written about the people who are still living in their villages and striving for their lives. As a development economist working on development and economic problems in Darfur and as an internal observer of the Sudanese political situation, I write here about these less known people, who did not leave their villages and still representing the greater part of the population in Darfur, stay and fight against insecurity, poverty and vulnerability.*

*To achieve this objective, 10 villages in Elfashir locality in North Darfur, which are rather peaceful and their population are still settling, were examined. The data has been collected from both Primary (Quantitative and qualitative data and information) and Secondary sources. They were collected at the following levels: Information from central institutions; State level; and Village level.*

#### **1. Issues**

The main theme of this paper is the conflict in Darfur, the Sudan's westernmost region, and its interrelation with the agricultural development (specifically production and marketing in traditional sector), natural resources management and local institutions in the region. The humanitarian disaster unleashed by the conflict in Darfur has led to the suffering of masses of people in the region. The escalation of the crisis has attracted the attention of the international community and the international media.

Much is being written about the civil war and ethnical problems in the region. Much is being written about the brutal inter-tribal fighting, which is manipulated by the central Sudanese authorities and the masses of people who died or fled their burned villages. However, much less is written about the people who are still living in their villages and striving for their lives. Although many areas in Darfur are still unsafe with vicious fighting between the Sudanese government and rebel forces, and masses of people have died or fled their villages, there are other parts, lesser known, that are actually rather peaceful, where people are living in their villages and trying to secure their subsistence. As a development economist working on development and economic problems in Darfur and as an internal observer of the Sudanese political situation, I write here about these less known people, who did not leave/had not to leave their villages and are still representing the greater part of the population in Darfur, stay and fight against insecurity, poverty and vulnerability.

The conflict has been presented in the media as a war between the people of Arabic roots/culture and Africans, with Arab militias, the *janjawid*, carrying out massacres, rape and pillage with the support of the Khartoum Government. Yes this is true, however this reflects only a part of the picture and simplifies a very complex reality. Such approach fails to identify the immediate factors from the root causes and the ways in which they interact. To understand the nature of the conflict and its impact on livelihoods, therefore a more systematic analysis of the different factors operating at different levels and their role and contribution to the conflict is required.

This paper represents an attempt to deal with one, arguably one of the most important, factors of the crisis, the one of natural resources utilization, specifically the land, and the relationship between various adaptive groups in the region. In particular the paper is concerning the traditional agricultural production system and the marketing problems of agricultural products. To achieve this objective, 10 villages in Elfashir locality in North Darfur, which are rather peaceful and their population are still settling, were examined.

## **2. Research Design and Research Results**

The methodology of this study was designed to enable the collection of reliable information required to describe the status quo of the investigated areas in North Darfur, despite the security and current movement constraints in North Darfur<sup>1</sup>. The fieldwork has covered 10 villages in rural Elfashir locality. It also covered agricultural crops markets and marketing-

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related bodies, in addition to services and services providers at different levels of production and marketing in the central government and the state level in Khartoum and Elfashir town. Quantitative and qualitative data and information were collected at the following levels: Information from central bodies involved in agricultural and rural development policies; State level: Documents, reports, studies, and information provided by different actors at the state level involved in the production and marketing of agricultural products; Village level: At this level, information and data were collected for establishing village profiles for the selected villages/communities, covering a variety of information such as production environment, production and marketing practices, services, number and gender composition of farmers, local institutions, such as farmers' organizations, etc. Due to the security and current movement constraints in North Darfur, data collection assistants were selected from each village to collect data on the village level, from his/her respective village. This was done to avoid cross movements of the author between the different villages, as she is a stranger from the area. The findings of the field investigations are reported below.

### **2.1. Introduction to North Darfur**

North Darfur state is a densely populated part of Sudan and is characterized by the multi-ethnicity and by contrasting lifestyles of its inhabitants. The State is considered as one of the poorest amongst Sudan's 26 States, with over 90% of the population living below the national poverty line. Its total population is 1.5 million, 80% of whom live in rural areas and depend on natural resources utilization such as traditional rain-fed cropping, which represents 80% of the household income, in addition to cattle raising (15%), and petty trade (5%) (Annual Report, Ministry of Planning, North Darfur State, 2006). Crops grown include staple crops (millet and sorghum) together with other cash crops (sesame and groundnuts) and vegetables (okra, tomatoes, and watermelons) for sale and domestic use. While agriculture represents the base of the local household economy, it is not subsistence-based, as widely believed, and households sell their product in order to invest in livestock and for other activities. These activities are combined with other minor activities, small-scale crafts, and cottage industries (Practical Action, Sudan, 2006b).

The tensions in Darfur have existed since the 1970s. Forced by drought and scarce resources, the nomadic cattle herders in the north ventured into lands populated by the more settled communities in the south. However the ongoing fighting broke out at the very moment when a peace agreement was about to be signed by 2003, which would have ended 21 years of conflict between the government of Sudan, and the Sudan People's Liberation Army (SPLA) in

southern Sudan, as the Greater Darfur, in particular Southern Darfur, like southern Sudan, is rich in oil. Therefore Darfur's tribes rebelled against the government complaining that Sudan's governments have given little or no attention to the development problems, the actual and potential ones, that have faced the region, since basic services and infrastructure are lacking.

Another new factor in the conflict in Darfur is the rebels' awareness of the terms of the proposed peace agreement between the government of Sudan and the SPLA, in which the power and wealth sharing are very important factors. From that moment the oil in Darfur became a focal issue in the conflict. Therefore the rebels hoped to strike a favourable deal for themselves (Manger, 2006) after the discovery of the oil in south Darfur.

## **2.2. Natural Resources and the Current Conflict**

### *a) Literature Review*

In most of the studies on the causes of civil war, there has been much focus on natural resources with a relative dearth of attention devoted to revenue allocation mechanisms that determine the level of vertical and horizontal inequality. The conflict around natural resources is largely determined by *uncertainty* in the distribution of revenues, *equity* in the allocation of revenue and the level of *enforcement* of the rules for allocating revenues (de Soysa et al 1999). In most cases the institutional structures that guide the allocation of revenues from natural resources tend to be the drivers for conflict rather than natural resources *per se*. The questions of how revenue from natural resources are distributed and whether such distribution is equitable and enforceable are central political questions for shaping and explaining the political conflict rather than mere abundance of natural resources.

Several scholars attribute the causes of civil war to the pressure of excessive population growth over environmental foundation, which tends to degrade or even deplete it with a far-reaching negative impact on economy and social fabric and eventually destabilization of political structure (Collier, 2000). Homer-Dixon (1994) argues that the observed civil conflict in the poorest countries is a direct result of environmental degradation that has led to scarcities in natural resources. According to Homer-Dixon the conflict is caused by the scarcity of natural resources either by driving the elite to "capture" resources at the expense of the poor and/or drought its debilitating effect on economic and social innovation or simply through an "ingenuity gap". In other words this argument suggests that poor countries face poverty and civil war simply because of resource scarcity dial inhibits socio-economic innovation.

This view has dominated and gained much credibility in the field of conflict studies (de Soysa et al, 1999). It is only recently that this approach attributing the causes of civil war to environmental degradation, resource scarcity and "ingenuity gap" has been challenged by contrary evidence that suggests that resource abundance leads to lower economic growth through "Dutch disease". In other words countries with a great quantity of natural resources are less innovative than resource-poor countries. Also de Soysa et al (1999) finds no evidence to support the hypothesis that the countries that are resource-poor (natural capital per capita) and poor in per capita wealth are especially vulnerable to civil war. Though de Soysa et al (1999) finds strong positive correlation between abundance of mineral resources and civil war, he finds no evidence to suggest that the poor countries with limited renewable resources per capita are likelier to be more conflict-prone than others.

#### *b) Resource Scarcity in Darfur*

One of the root causes of the present conflict in Darfur goes back to the natural resources crises in the region which started in 1970s and exacerbated in the mid-1980s when prolonged droughts speeded up the desertification process in northern and central Darfur. This severe drought that hit the region brought about a series of changes that affected seriously the lives of millions of people in that region for ever. It had intensified the pressure on water and grazing resources and therefore the nomads were forced to move southwards and become farmers. Conflicts over wells that in earlier times were settled with spears or, hopefully, mediation by elders or religious figures became much more intractable when the area started to become awash with guns, largely brought in from Chad or Libya (Fadul, 2006).

Another reason that had intensified the natural resources crises in the region is the population growth. The population of the greater Darfur has increased substantially over the last fifty years. According to this, the population density has increased tremendously. The increased population has pressed its need for a livelihood upon the natural resources and has thus resulted in great pressure upon, overuse and misuse of these resources. In turn the ecological conditions have changed through declining rainfall, drought and desertification etc. In addition to that, the demand for the agricultural crops has increased parallel to the increase in the population. Therefore, many changes have taken place since the beginning of 1960s. Productivity and production of the rain fed crops declined due to the decline of the rainfall in quantity, distribution and intensity (O'Fahey, 2006). For compensation of the declining production, horizontal expansion of farming became an option for the farmers. In turn, the average land holdings per household or person have decreased due to population increase. From this situa-

tion, it is inevitable that competition over land would take place not only between the farmers and nomads, but between the farmers themselves due to lack of grazing lands for their animals (Manger, 2006).

An essential factor that complicates the problem is the absence or the weakness of the traditional conflict resolution mechanisms, i.e. the native administration system. The changing role and politicization of the traditional local administrative system in the region has undermined its effectiveness in minimizing conflicts between the pastoralists and the farmers. The effective original traditional system was based on respected contractual systems, which promoted peaceful coexistence between nomads and farmers. This system has been eroded since the early 1970s by the government's decision of ending of the native administrative system (Morton, 2004 and Mohamed, 2006). Therefore conflicts over natural resources that in earlier time were settled with spears or, hopefully, mediation by elders and native administration became much more intractable in particular the area started to become awash with guns, largely brought in from Chad or Libya (Manger, 2006).

### 2.3. The Investigated Villages

#### *a) Household Structure and Livelihood Activities*

According to the focus group discussion (FGD) held with the community leaders in Elfashir, crop farming and livestock raising were found to be the main sources of income for the majority of the population. Few other incomes may be involved in other occupations, mainly small-scale trading or other small business activities, especially in the nearest towns, such as Elfashir (Table 1). The adopted crop farming practices are traditional, and are depending on the seasonal rainfall. The main crops grown are sorghum and millet, while groundnut, sesame, watermelon and hibiscus are among the cash crops cultivated in North Darfur. However, the adopted traditional production systems have limited the contribution of these crops to the improvement of the community's livelihood.

**Table 1: Source of Income of the Surveyed Families in the investigated Areas in North Darfur**

Source	Frequency	Percentage
<b>Agric.+ Livestock</b>	271	71,5
<b>Agric. + Trading</b>	43	11,3
<b>Agric + Others</b>	65	17,2
<b>Total</b>	379	100,0

Source: Fieldwork results, December 2006/ February 2007



Table 2 indicates that more than 96% of the surveyed families in the 10 villages are settled. Settlement is regarded as a positive indicator in relation to community development in general and agricultural development in particular.

**Table 2: Percentage of the Respondents according to Family Settlement Status**

Status	North Darfur	
	Frequency.	Percentage
Settled	381	96.2
Nomads	4	1.0
Displaced	11	2.8
Total	396	100.0

Source: Fieldwork results, December 2006/ February 2007

The percentage of nomads among villagers is very low (approximately 1% on average). This low percentage is an indicator of low chances for conflicts incidences between herders and farmers.

The number of internally displaced people (IDPs) is very few in the surveyed villages (Table 2). Different results were expected for North Darfur due to the prevailing conflicts and the confrontation between different groups, but it seems that IDPs existence is mainly around big centres like Elfashir.

Land is a very essential natural asset that can determine the livelihood type. The ownership of land for farming and the land tenure arrangements are among the push factors towards livelihoods sustainability. The reason is that land tenure determines the access to and the right over land resource that is needed by rural households for subsistence farming. In a case where access to land is denied, one is maybe pushed to other sources of livelihoods, if they are available, or he will be in a condition of rapid falling into poverty and vulnerability.

More than 90% of the respondents in both states confirmed that they own their farmland, and that their farms are not rented or granted (Table 3).

**Table 3: Percentage of Respondents according to Land in the investigated Areas in North Darfur**

Ownership	Frequency	Percentage
Own	358	91.3
Don't own	34	8.7
Total	392	100.0

Source: Fieldwork results, December 2006/ February 2007

Owning of farmland usually contributes to families' settlement and creates more links with land and agricultural activities. Due to the fact that farmers own the farmland, and being unaware of costing, they usually do not include the land rent when they calculate their production cost.

The estimation of farm size by the respondents depended mainly on the size of land that the family could cultivate. Other lands may exist around in the area, but the traditional means of cultivation may not enable the farmers to use them. This may indicate that improving the cultural practices would enable farmers to cultivate larger farms and possibly to obtain more yield, provided that qualitative improvement is secured. The farmers usually go on foot. Male & female participate in planting. The popular traditional unit used for measuring the land area in western Sudan is "Makhammas" (one Makhammas = 1.84 acres). According to the field-work findings, the average farm size in N. Darfur is 2.3 acres (see table 4. There are variations in farm sizes between different farmers. This could be due to the different capacities to cultivate crops, i.e. the family size is a main determinant of farm size.

**Table 4: Socioeconomic Indicators of the investigated Household's Members**

<b>Parameters</b>	<b>Percentage</b>	<b>Mean</b>
<b>Sex</b>		
Male	46.9	-
Female	53.1	
<b>Household size</b>	-	8.2
<b>Educational level of household members</b>		
Illiterate	32.8	-
Traditional education (khalwa)	22.2	-
Primary	34.4	-
Intermediate	2.0	-
Secondary	5.2	-
University	2.2	-
Preschool	1.2	-
<b>Farm size</b>		2.3
<b>Land tenure arrangement</b>		
Inheritance	35.6	-
Leased (government + others)	55.5	-
Shared	8.9	-
<b>Annual Household Gross income</b>		<b>274.610.00 (Sud. Dinar)</b>

Source: Field work results, December 2006/ February 2007

Income as a financial capital is also an important factor for this study to measure the poverty of the investigated households. The annual mean income of the household as table 4 indicates is 274610.00 Sudanese Dinar, which is equivalent to 1173.55 US\$. Considering the mean household size (8.2) we can see that, per day income per household head is 0.4 US\$. Compare to the World Bank income poverty rate, which is 1US\$ per day per household head, we find that all households in North Darfur are very poor. All livelihood activities and source of income revolve around agriculture, forestry, livestock trade and fetching for gold in seasonal streams.

#### *b) Social Networks and Institutions*

As in many societies in rural Sudan, all investigated communities have a strong social network. The most important social networks are those between relatives, i.e. the nuclear family of a man and his wife or wives, the children and the direct blood relatives, the extended family, parents of the man and his wife/wives, brothers and sisters of the man and his wife/wives, uncles and aunts of the man and wife as well as the cousins of the man and his wife/wives, then come the more distant blood relatives, i.e. the member of a lineage, then all inhabitants of the village. The mutual obligations and assistance depend on this degree of relationship. The members of an extended family expect help from each other, chiefly materially, on all occasions. This especially applies when dealing with land ownership, the distribution of work and maintaining the finances. This is a standard phenomenon of the Sudanese societies. Although there is individual ownership of land, particularly if one buys a piece of land on his own, the land of a man and his sons or of brothers is, as a rule, managed all together and the work and responsibility are shared. The following is some art of institutions:

- **Native Administration:**

The whole communities in visited villages are formed of tribal groups led by traditional leaders called “Umdas”. For each geographical setting of a group of sub-villages there is always one Umda. These tribal traditional leaders act as sources of wisdom and archive of the community. They regulate the community system and solve problems of the communities such as conflict through the “Sheiks” who are responsible for their tribes in sub-villages to whom the individual communities pay patronage.

- **The Public Committees:**

In each village there are Popular Committee Structures pointed by the government. They assist in communication between these communities and government offices and trying to solve some problems, such as the problem of water etc. The members of

these committees are from the community and recommended by village “Sheiks”. Accrediting to them, they did not receive any type of training. The women representation in those committees is very weak. The average membership per committee is around 9 persons.

- Other Social Institutions

In almost all of the villages visited there are Community based organizations and social clubs. Clubs are associated to community social activities. Mostly it is the place where youth gather to play cards, dominoes and carry out social activities.

### *c) Agricultural Problems and Livelihood Security*

The agricultural activities in North Darfur are facing many problems, contributing to low production and consequently resulting in a limited contribution to the improvement of the livelihood of the local communities. These problems include:

- Failure with regard of the capacity of the land

Desertification and drought in the early 1970s and 1980s, in conjunction with growth in both human population and animal stocks and subjected to misguided central government policies, generated the need of enormous changes in livelihoods of different groups and impacted their relationships (Fadul, 2006).

- The failure with regard of the capacity of traditional systems for maintenance and management of insufficient resources (See point (a) above).
- Some other agricultural problems

Furthermore, the investigated communities in North Darfur expose many of the problems that encountered them to better living conditions, which can be summarised with regard to some factors as follows:

- Dependence of the crop production system on the amount and distribution of rainfall seriously affects the production, especially during the periods of frequent droughts or years of extremely low rainfall.
- The majority of the community planted their crops by taking loans from merchants, and so they usually were forced to sell their crop immediately after the harvest where the price is low.
- Lack of technology: The use of hand tools increases the cost of production and makes it difficult to expand in the area.
- Lack of improved seeds and agricultural methods.
- Lack of training for the farmers.

- Inability to control weeds, plant pest & diseases.
- Lack of free veterinary services.

The following table 5 summarizes the major agricultural problems in the area:

**Table 5: Agricultural Problems**

<b>Problem</b>	<b>Percentage</b>
<b>Access to Credit</b>	78.9
<b>Access to Land</b>	31.1
<b>Lack of Agrochemicals</b>	18.9
<b>Lack of Agricultural Equipments</b>	10.0
<b>lack of Improved Seeds</b>	11.1
<b>Irrigation Problems</b>	1.1
<b>Access to Credit and Lack of Equipments</b>	12.2

Source: Fieldwork results, December 2006/ February 2007

#### **2.4. Markets and Agricultural Marketing in North Darfur**

Markets are of fundamental importance in the livelihood strategy of most rural households in North Darfur. They are where households as producers buy their inputs and sell their products; and where, as consumers, they spend their income from the sale of crops or from their non-agricultural activities, to buy their food requirements and other consumption goods.

There are a number of crop markets in Western Sudan dealing with a variety of agricultural commodities. In North Darfur, active markets will be found only in big towns, such as in El-fashir (Practical Action, 2006a).

Markets in the surveyed area are typically rural markets, in terms of structure, days of work, and the way the commodities are displayed. In all the surveyed villages the markets work for only one or two days per week. During these days villagers come from different directions to sell their crop. These markets are usually more active after the rainy season, at a time locally called "Darat".

According to the findings of the focus group discussion (FGD), the sellers and buyers in each market are not necessarily from the same area. Buyers usually come from outside, like middlemen or agents working for big merchants, who usually offer low prices.

The marketing chain starts when farmers begin to sell their crops to the village merchants or to merchants in the nearest markets. Sometimes middlemen at the village level may come in-between the farmers and the merchants in those markets. The merchants and the middlemen at

the village level use no proper weighing methods; sometimes they use a weighing method called "lutt" which simply means raising the amount offered in the air and estimating the weight accordingly. Screw balances are sometimes used for bigger amounts. Farmers are not usually happy about the weighing methods practiced by middlemen. Some of the balances used are either old or improperly calibrated (Practical Action, 2006a).

The big merchants, dealers and companies, visiting big village markets and crop markets at the state level, are linked with export activities and have their own means of transport. After buying, they usually undertake cleaning and sorting of the goods before repacking for export. Crops prices vary significantly from one season to another, depending on the demand and supply forces. At the village level, the price of hibiscus depends on direct bargaining between the farmer and the buyer. Prices in the crop markets, at the state level, vary significantly depending on demand by big dealers and companies. No pricing policy for agricultural crops is practiced at the state level. The price is usually left for the market mechanism. Farmers stated that prices are more affected by the demand (by big dealers and companies) than by the seasonal conditions of production.

Transport is an important market cost component. The location of North Darfur gives the transport a special dimension due to its direct effect on the price of agricultural products. The distance to the terminal market (Khartoum) is great. It affects the transport costs, particularly for the Darfur merchants. Big trucks usually transport the crops, and the trucks are loaded with an average load of 20 tons. Travelling on roads from North Darfur to Khartoum, for example, requires a good experience in driving and good knowledge of roads. A trip to the terminal market in Khartoum may take 3 -5 days. Truck owners/drivers pay fees when using highways or crossing states. Such cost is normally included in crop prices.

## **2.5. Marketing Constraints and Problems**

The problems of agricultural markets and marketing in North Darfur can be summarized in the following main points (See also Practical Action, 2006b):

### *Physical Access to Markets*

Distance to markets – and lack of roads to get to them or roads that are impassable at certain times of the year – is a central concern for small-scale farmers in North Darfur. It undermines their ability to buy their inputs and to sell their crops; it results in high transportation costs, both to buyers and to sellers; and it leads to uncompetitive, monopolistic markets.

### *Market Structure*

Rural markets are characterized by extreme asymmetry of relations between, on the one hand, large numbers of small producers/consumers, and on the other hand, a few market intermediaries. Such market relations are characteristically uncompetitive, unpredictable and highly inequitable. Rural producers in North Darfur, who face difficulties in reaching markets, often become dependent on traders coming to the village to buy their agricultural produce and to sell them inputs and consumer goods. However, the traders may not arrive reliably or at all, and producers are often faced with little choice but to accept the first offer of the first trader who shows up, whatsoever unfavourable it might be. Such a situation is exacerbated when the trader is also the only source of information on prices and other relevant market information.

### *Lack of Skills*

In their participation in agricultural markets, poor producers find themselves at a major disadvantage. Many have a poor understanding of the market, how it works, and why prices fluctuate; they have little or no information on market conditions, prices, and the quality of goods.

### *Lack of Market Information*

Most of the small-scale farmers in Sudan receive no information about changes in the value of their products, whereas traders have reasonably rapid access to such trade-based information. This limited access to basic market information is one of the major impediments to empowering farmers to negotiate for better prices and thus to build market confidence and trade links. Despite its low cost, the government has not invested in such services to support the small-scale farming community in Sudan.

### *Lack of Good Organisation*

Farmers lack appropriate organizations that can give them the power they need to interact on equal terms with other, generally larger and stronger, market intermediaries. This lack of scale means that trade suffer from poor quality, low volume, and weak links, and is often uncompetitive because of the consequently high transaction costs. They have also no experience of market negotiation and little appreciation of their own capacity to influence the terms and the conditions upon which they trade.

### *Excessively Long Marketing Chains*

There are too many marketing intermediaries who increase production costs and render crops less competitive on export markets.

### *Limited Access to Inadequate Infrastructure*

Small-scale farmers in North Darfur are finding it increasingly difficult to compete in national, regional and international markets due to the inadequate infrastructure such as roads, storage facilities, power and transportation, not to mention their limited access to such infrastructure, hence constraining the ability of rural communities to engage in more distant markets.

### *Natural and Civil Shocks*

Shocks constitute some of the most severe constraints to developing growing markets in rural North Darfur. These severe impediments are caused by: drought, floods, civil war, political disputes, and attacks from pests, locusts and grain borers.

## **2.6. View of Livelihood Security and Poverty**

According to Carney (1998) a livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living: a livelihood is sustainable which can cope with and recover from stress and shocks and maintain or enhance its capabilities and assets. The understanding of the Poor's assets, in terms of human, natural, physical, financial and social capitals, and strategies to cope with external factors such as shocks, trends and seasonality (i.e. vulnerability context) and institutional, commercial and cultural structures and processes, can provide avenues to target development strategies more adequately to the poor and support them to achieve new livelihood outcomes.

Based on Macqueen (2001) the livelihood capital assets can be assessed through the following indicators shown in the following table 6. In security model criteria of Macqueen there are five levels of security for all capital assets of livelihood, unsustainable, constrained, sustainable, progressive and abundant. So the sustainability, progressiveness or abundant of a livelihood implies its security and vice-versa.



**Table 6: Matrix for Livelihood Capital Asset**

Capital assets	Ranking				
	Unsustainable	Constrained	Sustainable	Progressive	Abundant
<b>Financial</b>	Destitute - not enough money for basic essentials	Lack of credit and finance restricts livelihood to subsistence, despite other assets	Sufficient finance to purchase non-essential items given absence of other constraints	Enough finance to overcome restrictions in other capital assets	Rich - sufficient wealth to overcome any shortage in other capital assets
<b>Physical</b>	Isolated - insufficient infra-structure to access necessary resources for survival	Physical isolation and lack of communication restrict livelihoods to subsistence despite other assets	Sufficient infrastructure to improve conditions through trade given absence of other restrictions	Infrastructure sufficiently good to allow alternative livelihood options despite restrictions in some areas	Connected - access to products and services so easy that livelihood opportunities are abundant
<b>Natural</b>	Degraded – Resource failure due to irrevocable degradation of natural resources	Degradation of resource base restricts options to those of subsistence despite other assets	Enough natural resources to allow cash sale or trade given absence of other restrictions	Natural resource surpluses are sufficient to overcome restrictions in other areas	Verdant - natural resources so plentiful that adequate livelihoods are guaranteed
<b>Human</b>	Uneducated – education and skills so limited that opportunities to survive cannot be taken	Lack of education and training restricts options to those of subsistence despite other assets	Enough education and skills to develop non-subsistence opportunities given absence of other restrictions	Skills and education are sufficiently in demand that other livelihood restrictions can be overcome	Educated - skills and training offer more than one livelihood opportunity
<b>Social</b>	Oppressed - institutions persecute or fail to protect livelihoods	Social organization so weak that it restricts livelihood options despite other assets	Social networks allow the development of organized support structures for non-subsistence activities given absence of other restrictions	Social structures sufficiently strong as to compensate for restrictions in other areas.	Supported - social structures offer varied opportunities for employment and income generation

Source: Macqueen, 2001

Adapting the above discussed analytical framework, in particular the criteria offered by Macqueen, we can observe obviously, as it is shown in the following table 7, how the livelihood in the investigated communities in North Darfur is unsecured and unsustainable.

**Table 7: View of North Darfur Communities on Security of their Livelihood**

Capital Assets	Ranking				
	Unsustainable	Constrained	Sustainable	Progressive	Abundant
<b>Financial</b>					
Cash at hand					
Remittance					
Credits					
Investment worth					
<b>Physical</b>					
Equipment for the household					
Infrastructure					
Building and housing					
Agricultural equipment and technology					
<b>Natural</b>					
Agricultural land					
Forests					
Grazing resources					
Water					
<b>Human</b>					
Education					
Health					
Labour					
Training					
Skills in other livelihoods					
<b>Social</b>					
Networks					
Cooperatives and Community based organizations					

Source: Construction by author under criteria offered by Macqueen, 2001

The human and natural assets which are primary to the rural agricultural and pastoral livelihoods system were apparent by the investigated communities in the North Darfur State as unsustainable. Agriculture and livestock for the agriculturists and pastoralists in rural areas is fundamental means for production, storage and transfer and transport of food, wealth and other services. Any threat to agriculture and livestock such as, land constraints, water, raiding, price variation and diseases, is therefore a direct threat to rural livelihoods (Ohlsson, 2000).

The implication of the unsustainable livelihood assets are:

- a) Chronic poverty and vulnerability and inability to improve the living condition,
- b) Isolation and lack of ability to influence policies and institutions that defines their livelihood options.

However, the findings reveal that the social assets in the investigated communities are sustainable. This tells that these communities have the ability to engage with other actors in the spheres of the market, state and civil society in order to have access to resources and also encourage their ability to form shared work groups.

### **3. Conclusion and Policy Implications**

The economic environment which small-scale farmers in North Darfur face is characterized by unpredictability, uncertainty, and risk. These factors, such as the unfavourable macro policies, poor market infrastructure, limited access to the market, lack of information on markets, poor organizational skills, land ownership titles, and an excessively long marketing chain, are severe in impact. Natural and civil shocks constitute some of the most severe constraints to developing the growth of markets in rural Sudan. These severe impediments are caused by: drought, floods, civil war, political disputes, and attacks from pests, locusts and grain borers. Marketing constitutes one of the main bottlenecks facing small farmers. Access of small farmers to markets has increasingly become difficult. Small producers often have to sell at low prices and to buy their needs at high prices. The small producers find it difficult to cope with international developments and have little access to market information, coupled with a lack of efficient producer organizations and poor bargaining skills.

The situation of investigated rural population in northern Darfur is discussed thoroughly above, their rights to have a better life and consequently having sustainable peace raise complex and intractable issues.

Many actors have to be involved in the following policy recommendation: governments, development organizations, as well as the local community.

Any policy that intend to change the situation in North Darfur, must first take into consideration the essential role of livelihood sustainability and agricultural development for sustainable peace in the North Darfur. Particular attention should be given to understanding the nature, context and dynamics of the institutional environment and of the power relations between and among the various factors that cause poverty and livelihood suffering, and the possibilities of eradicating or eliminating these factors. With this background, an illustration for a concept of

policy recommendation to eradicating poverty, sustaining livelihood and cultivating sustainable peace in North Darfur can be seen as follows:

Any program, project or idea for development must be made in collaboration between the North Darfur population represented by their local institutions, such as the community based organizations (CBOs), cooperatives and other civil society organizations and NGOs in the area, the state and the international development organisations. Local participation in governance is essential for people to take control of their overall social and cultural development and manage the resources on which their livelihoods depend. Governments that support and enable local aspirations result from the combination of strong peoples' organizations capable of articulating their desired policy alternatives and institutions designed to be responsive to local demands. Good governance allows local people to set the policy agenda, be a watchdog for abuses, and ensure implementation and enforcement of regulations:

a) *The Role of the Local Institutions can be seen as Follows:*

- One of the main prerequisites for a conflict resolution and sustainable peace and development in North Darfur is that the local institutions in their different structure (CBOs, NGOs, Cooperatives, etc.) have to support the indigenous people of Northern Darfur through internal discourse and co-opted strategies so that they are able to change their situation by themselves. The knowledge of which life they can have and how they can satisfy their basic needs by themselves must be given to them. The elimination of weaknesses and the improvement of their life situation must be realized by themselves by building on their own awareness of their rights. These organisations must work to people of North Darfur together and give them the trust and confidence to discussing their problems and solving these problems within the framework of their environment and indigenous culture.
- These organizations should also engage in a dialogue with other NGOs in national level and maybe from other countries to exchange insights and strategies.
- They can also organize strong campaigns and lobby work at the macro level in order to work towards supportive policy for their communities and towards the reform of the laws discriminating small-scale farmers.

*b) The Role of the State and International Development Organizations*

- The state and international development organisations must support the internal participants to challenge prevailing perceptions, while avoiding overt interference because this will undermine the credibility of internal actors.
- There must be co-operation, trust and confidence work between the local institutions and the international organisations. The employees of these organisations must support and defend the local institutions. Beside the financial support, international organisations must also provide the people in North Darfur, in particular the members of the CBOs and NGOs, with technical education and training.
- The international organisation should also support a dialogue between the local and national NGOs with other NGOs from other countries to exchange insights and strategies.

*c) The Alteration of the Basic Socio-economic Conditions in North Darfur*

For the conversion of the strategic thoughts of this study for the lasting and wide-effective peace and development in North Darfur, different programs and projects should be carried out in different areas and on different levels, which has to be considered as a long-term process; direct strategies to change the basic socio-economic conditions for the farmers in North Darfur must also take place. This could be a direct work of the state in collaboration with the international organizations. Some ideas can be developed from the following points:

1. The need to work more in sustainable development and not only in humanitarian and security areas.
2. It is necessary that strategies for conflict resolution and peace-building take into account the essential role of natural resources by enhancing natural resources management through strengthening information base, land reform, conservation measures and sustaining the natural pastures.
3. Raising agricultural productivity through providing direct support to farmers can be in the form of: a) studying farming systems and growth conditions to recommend necessary improvements, e.g. improved seeds, seeds dressing, etc.; b) Micro-credit to improve cultivation and harvesting; c) improving appropriate technology for harvesting; d) introducing new tools for weeding and cleaning; e) facilitating farmers' access to market information; and f) building their skills to improve price negotiation. Intensifying management of agricultural areas: This could improve the quality and

increase the quantity of agricultural production. This could result in higher incomes, provided that there is a market available. Increasing post-harvest production and manufacturing could increase the value of products sold: communities can take advantage of good access to raw materials and low labour costs to keep their prices competitive.

6. The demand for a product at small local markets is often easily met, causing a drop in price: Therefore improving access to larger markets will enable people to expand their production. Supporting producers to work together to meet the demands of larger markets: This enables people to share costs, such as transportation, and to share knowledge of a product.
8. Training programs are also effective in increasing the abilities of farmers to obtain productive work opportunities.
9. The lack of financial assets is a constraint against productive work for the people in North Darfur. Thus credits for them are effective measures to enable them to obtain the needed assets. Mobile credit offices are efficient means to lower transaction costs. Group lending may be a solution of a lack of collateral in addition to simplified application procedures for obtaining a credit. Hiring staff from client communities facilitates the communication with the borrowing community. Additional effective measurement are short loan terms, the extension of very small loans to meet day to day financial requirements of women's business, full repayment of one loan brings access to another, limitation of time between application and disbursement and the development of a public image that credits are for the poor. Credit cooperatives provide people with the necessary capital; producer cooperatives help them to get better prices for their agricultural productions.
10. The promotion of specific women's and children's health programs such as women's-medical consultation, vaccination campaigns and courses about nutrition. This has to adapt the local condition in the North Darfur till the awareness programmes could bring their results. For instance it is observed during the field research that there are problems with the health of children under five in the North Darfur.
11. The creation of better conditions for an active participation of women in decision making in their community through suitable structures and institutions on local and regional levels.

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**CHAPTER 4**

***Nigeria and its Path to Democracy: Conflict Resolution by National and Regional Governance Reforms***

**Political Governance, Economic Growth and Development in Nigeria**

Reuben Adeolu Alabi and Moses Ailemen

**Reconstruction of Economic Governance in Niger Delta Region in Nigeria:**

**The Case of Niger Delta Development Commission**

Ben E. Aigbokhan

**Natural Resources and Good Governance**

**Case Study: Local Communities in the Niger Delta**

Ignatius Adeh



## Political Governance, Economic Growth and Development in Nigeria

Reuben Adeolu Alabi and Moses Ailemen

### Abstract

*Governance is the manner in which power is exercised in the management of a country's economic and social resources for development. Alternatively, it is the use of political authority and exercise of control over a society and the management of resources. This includes institutional and structural arrangements, decision-making processes, policy formulation, implementation capacity, development of personnel, information flows, and the nature and style of leadership within a political system. The economic development may not be entirely isolated from political governance. The decisions governing the allocations of the resources that bring about economic development are mostly taken through the political mechanism. Therefore, how much economic development a country achieves may be correlated to the corresponding political governance that was in that given period. In realizing the importance of governance in economic growth and development, this study applied inferential statistics to examine the effect of political governance on selected economic variables in Nigeria. Secondary data were collected from the Central Bank of Nigeria Statistical Bulletin and Journal publications from the period 1960 to 2006. The data were analysed using T-ratio and multiple regression analysis. This study established the fact that the types of political governance put in place in Nigeria have not significantly influenced capacity utilization, employment, industrial capacity utilization, food production per capita and industrial harmony. In essence it has not generated economic development as expected. That may explain why industrial capacity utilization in Nigeria declined from 76.6% in 1966 to 36% in 2004 despite different types of government put in place within the period. In order to formulate political governance relevant in achieving the economic development in Nigeria, democratic government should be encouraged as the study shows that lower unemployment, higher industrial capacity utilization, higher food production per capita, a lower inflation rate, lower numbers of trade disputes, and lower numbers of work-stoppage were recorded during civilian regimes. However, the differences in these parameters were not significant due to the way the governance is practiced in Nigeria. The paper then recommends a democratic political gov-*

*ernance that is transparent, accountable with adherence to observance of rule of law to promote economic growth and development in Nigeria.*

## **1. Introduction**

Nigeria was ranked the 19th and the 13th poorest country in 1996 and 2001 respectively (World Bank, 2002). Per capita income was about \$270, almost the same as it was in 1972. This is far below the \$3890 and \$980 per capita income for Malaysia and Indonesia respectively. While most of the East Asian economies grew at over 8% per annum, the average growth of Gross Domestic Product (GDP) for Nigeria between 1995 and 2000 was 2.96%. The Human Development Index (HDI) for Nigeria is very low, being 0.4 in 2003 compared with the average of 0.6 for all developing countries (Edosa, 2003). Nigeria was ranked 158th on HDI out of 177 countries considered in the survey in 2003. All these indicators point to a failure of development. The failure is due to mismanagement, misleading economic and social policies, inept and oppressive leadership, and bad governance (Aigbokhan et al, 2004).

The economic development may not be entirely isolated from political governance. The logic is not a complicated one: decisions governing the allocations of the resources that foster economic development (namely, labour, land, capital and entrepreneurship) are taken typically through the political mechanism. To this extent, how much economic development a country achieves may be correlated to the corresponding political governance that is given in that period (Anyiwe, 2003b). Indeed, good governance is a necessary condition for growth and development, because the decisions governing the allocation of resources that create economic development and growth are generally taken through political mechanisms (Anyiwe, 2003a). Governance refers to the manner in which power is exercised in the management of a country's economic and social resources for development (World Bank, 1992). Alternatively, it is the use of political authority and exercise of control over a society and the management of resources (Wai, 1995). This includes institutional and structural arrangements, decision-making processes, policy formulation, and implementation capacity, development of personnel, information flows, and the nature and style of leadership within a political system. From a development perspective, however, governance can be usefully defined as the efficiency and effectiveness of government in promoting the economic well being of its people (Obadan, 1998). Thus, good governance implies efficient and effective public administration, good policies and sound

management of natural resources. It calls for the ability of the state to anticipate challenges to its well-being, provide core services to its people and then augments these services, acts as catalyst of change, and guides the various forces in a society towards harmony. In the context of this study, good governance can be briefly summarised as government regime established through transparent democracy that works for the well being of its citizens. Political regimes are those organs of society who have been given or seize the license to manage the nation's economic and social resources. The management can bring about positive or negative economic growth and development. Frischtak (1994) notes that the major bane to sustained growth and development in developing countries is the political environment. According to Friedman (1962), democracy will bring about greater economic growth than non-democratic rule. This view is supported by Scully (1988). Some scholars have the opinion that democracy can be counterproductive (Lan-dell-Mills and Serageldin, 1991). They used the data from the 'Asian Tigers'. Other works show that some undemocratic regimes have ushered in great levels of economic growth and development (Chete and Robert, 1996). Some studies show inconclusive empirical results (Prizeworski and Limongi, 1993; Alesina and Perotti, 1994; Helliwell, 1994). To this extent, some authors (Onwioduokit, 1999) have the opinion that the studies on political governance should be country-specific. Odetola (1982), using Nigeria data, argued that the military regime spurred economic development processes more than the civilians. Gana (2000) concluded that the civilian regimes performed better than the military rule. Other authors with the same opinion as Gana (2000) are Obadan (1998), Anyiwe (2003b) and Prizeworski and Limongi (1993).

Drawing from the definitions of Meier (1976) and Goulet (1971), the economic development of a nation is a phenomenon where the national output has experienced sustained growth. This includes provision of health, education, infrastructural facilities and services, to satisfy all the citizens. The economic development will engender the participation and access to governance by the people. The outcomes would be increased incomes, increased food production per capita, increased employment with minimal inflation, increased capacity utilization, industrial peace and tranquillity. The issue at stake is: Does political governance influence these economic variables in Nigeria? Essentially, this study examines the effect of political governance (military and civilian) on unemployment, food production per capita, inflation, industrial capacity utilization, GDP, and industrial harmony measured as industrial work stoppage and trade disputes.

The remaining part of this paper is divided into six sections; viz, Section 2, discusses the features of Nigeria's political history within the period of 1960 to 2006; Section 3, relates political leadership with development in Nigerian context; Section 4 discusses political governance, economic growth and development; Section 5 gives the methodology of the study; Section 6 presents and discusses the results of the data analysis; while Section 7 enumerates the policy implications of the study.

## **2. Nigeria's Political History 1960 to Date**

Nigeria attained independence status in 1960. From the year of political independence to date, Nigerian maintained a mixed economy with varying dimensions of skewness towards market system. For the sample period 1960 to 2006, Nigeria experienced basically two types of political regimes (civilian regime and military regime), which were made up of eight different regimes (Anyiwe, 2003b).

Table 1 shows that Nigeria started off at independence with a civilian regime (headed by Alhaji Tafawa Balewa, as prime minister and Dr. Nnamdi Azikiwe, as president), which can be referred to a 'democratic regime', lasting from 1960 to 1966. This democratic regime was patterned along the British parliamentary democracy. The pattern of governance within this period did not deviate much from that of the colonial regime. Economically, Nigeria was operated as a mixed economy with emphasis on agricultural sector and export promotion. The civil and political strives of 1966, an aftermath of election activities, resulted to a coup and then, the first military rule between 1966 and 1975. The first military head of state was Major General J.T.U. Aguiyi-Ironsi who was quickly followed by General Yakubu Gowon. Within this period, there was a civil war, which lasted about three years, between May 1967 and January 1970. The remaining part of this military regime was devoted to the reconstruction of the economy. Fortunately, the petrol-dollar has started rolling in and this assisted the administration (Gowon's) to finance several reconstruction programmes. As the crude oil sector took dominance of the economy, the traditional pivotal sector of the economy, agriculture began to decline. The military regime continued the administration of Nigeria between 1975 and 1979, but the rod of power has changed to General Murtala Muhammed and later General Olusegun Obasanjo. This second phase of military rule in Nigeria was preoccupied with preparations for transition from military to civilian rule. In this period, the dependence of the Nigerian economy on petroleum sector continued to rise, while productivity in agriculture

declined. The second republic (civilian rule, 1979-83) came afloat in 1979 with Alhaji Shehu Shagari as the head of state. This second democratic (civilian) regime was patterned after the executive presidential system of the United States of America. At this time, the heavy dependence of the Nigerian economy on the petroleum sector and the neglect of the agricultural sector had become a permanent feature. Unfortunately, the world crude oil prices fell in mid 1981, resulting to a decrease of crude oil production from 2.1 million barrels a day in 1980 to 0.5 million barrels in 1981 (Anyiwe, 2003b). Consequently, development plans and projects, based oil revenue, suffered. This made the Nigerian economy unstable, leaving her at the middle of an ocean of economic crises, manifested in trade deficits, overvalued domestic currency, foreign debts and the likes. It was alleged that this period harboured highly corrupt government officials and hence, in 1983 the military seized power again from the civilians and General M. Buhari became the head of state of the third military regime from 1983 to 1985. This military regime focused attention on sanitizing the economy, to open it up to greater development; so socio-economic controls reforms to bring about self-sustenance and inward looking developments were put in place.

It may be said that the sanitization and chastisement programmes of the Buhari regime became unbearable in some quarters, it was not convenient to corrupt political elites hence, there was another coup d'état which brought General Ibrahim Babangida to power from 1985 to 1993. The Babangida's administration continued with the operation of the mixed economy practiced by the preceding regimes. But this administration introduced far-reaching and comprehensive programmes fashioned to address the pattern of aggregate demand as well as raise the standard of living of the rural population. These programmes, which included the Structural Adjustment Programme (SAP) and the Better Life Programme for Rural Woman, moved Nigeria further up on the ladder of capitalism. The economic afflictions on Nigeria continued unabated, and when the socio-political pressures mounted by these afflictions became unbearable, Babangida (in his own words) decided 'to step aside' in 1993. The well thought out 'stepping aside' ushered in the interim government headed by Chief E. Shonekan. The interim government lasted for only three months, from August to November of 1993 and no meaningful policy changes were made within this short period, hence Babangida and Shonekan's regimes were the same. In spite of all, the transition from military to civilian rule activities and programmes which engulfed millions of Naira (N), another military regime (1993-1999) took over

power from the interim government in 1993. This latest military rule was headed by General Sani Abacha and when Abacha died unceremoniously in June, 1998, the mantle of leadership fell on Alhaji Abubakar. Abubakar eventually handed over power on May 29, 1999, to President Olusegun Obasanjo, who is a military-turned civilian. His economic policies since 1999 to date are anchored on deregulation of economy, which he has pursued vigorously.

**Table 1: Types of Political Regimes in Nigeria 1960-2006**

Year	Head of State (Surname underscored)	Type of Regime
1960 - 1966	Alhaji Tafawa <u>Balewa</u> (Prime Minister) / Dr. Nnamdi <u>Azikiwe</u> (President)	Civilian
1966 - 1975	Major General J.T.U. <u>Aguivi-Ironsi</u> / General Yakubu <u>Gowon</u>	Military Military
1975 – 1979	General Murtala <u>Muhammed</u> / General Olusegun <u>Obasanjo</u>	Military
1979 - 1983	Alhaji Shehu <u>Shagari</u>	Civilian
1983 - 1985	General M. <u>Buhari</u>	Military
1985 - 1993	General Ibrahim <u>Babangida</u>	Military
1993 (Aug-Nov)	Chief E. <u>Shonekan</u>	Interim Government (Civilian)
1993-1999 (May)	General Sani <u>Abacha</u> / General Abdulsalami Abubakar	Military
1999 – 2007	President Olusegun <u>Obasanjo</u>	Civilian

Source: Adapted from Anyiwe (2003:199)



### **3. Political Leadership and Development**

Leadership plays a crucial role in establishing a potentially creative (or destructive) socio-political and economic environment in which people can pursue development through genuine and sustained collective sacrifice. The type of leadership that can impact positively on development is the transforming leadership, which has the characteristics of innovativeness and high moral character. The higher the moral character of a leader, the greater is his ability for development, the deeper the understanding of the people in terms of their basic aspirations and motivations. The innovative ability tends to decrease the aversion to risk-taking and greater willingness to bear uncertainty (Chete and Robert, 1996). A transforming leadership would ensure that the choices that made would be the (weighted) revealed preferences of the country's citizens if the people would know the facts, i.e. if they would know the opportunity available to them. Once the weighted structure of preferences of the nationals would be known in any matter, it would be the object of good political leadership to obtain the best possible for the nation. Furthermore, a transforming leadership, in exercising authority, inspiration, and management, would search for optimality in its choice of leadership techniques (Ake, 1978). Also, if there is a good government, it would exercise political leadership with its followers in such a way that it would not involve bare power wielding. The motive for the actions of the government exercising political leadership is definitively not the enhancement of the private wealth of those in government. In another case, the political leadership and the government, as an entity, generally would be corrupt. An economy with a corrupt government operates under its social production capabilities as a result of the misallocation of resources and behavioural responses of individuals and firms to the corruption (Johnson, 1986). Past experiences in many developing countries show that citizen had struggled to pick leaders they thought would promote public interests, only to find that such leaders diverted the public resources to private uses (Adekanye, 1985).

Political leadership is as much a factor in economic development as entrepreneurship. Indeed; it is a condition for entrepreneurship (Johnson, 1986). The motives of individuals and political parties\military regimes in seeking and obtaining political power must include desire to effect a real change in the development path of the country. To this end, there are a number of developmental goals which political leadership must pursue.

They are stated by Obadan (1998) as:

- Real output growth / per capita economic growth
- Fairness in the distribution of output
- Social stability
- Personal safety
- National political and economic independence in decision making and actions
- Aesthetic quality of life

These goals are geared towards the good of the nation. They have to be pursued by executive political leadership in the context of broad and consistent national programmes for economic growth and stability, foreign policy strategy, and welfare of the people. For the goal of economic growth, leadership entails the use of certain techniques to exercise authority, to inspire and to manage, so as to attain certain intermediate goals, which have specific expected impact on the final output goal. It is the responsibility of leadership to create the necessary conditions or environment for the efficient organization of society's resources (land, labour, and capital) for sustained economic growth. This can be accomplished through reducing the risk of entrepreneurship, erecting appropriate signals for efficient allocation of resources in the economy, thereby increasing the marginal productivities of all resources available to the economy. Then, political leadership would have succeeded if the potential rate of economic growth is substantially raised and the actual rate of growth is normally kept equal to the potential rate of growth. Furthermore, a positive contribution to the economic development of the nation implies that political leadership would have succeeded in increasing the supply of entrepreneurship, and augmenting the efficiency in the use of resources in such a way that would add to the net output per capita of the citizens (Odetola, 1982).

#### **4. Political Governance, Economic Growth and Development**

There is a belief, which has become strongly prevalent in recent times, that there exists links among democracy, good government and economic growth. In the 1960s, the prevailing ideas were that democracy and development went hand in hand (Perotti, 1996). These ideas partly inspired the alliance for progress. By the 1970s, as the East Asian 'Tigers' experienced rapid economic growth and as the military replaced elected government in much of Latin America, the reluctant belief emerged that some form of authoritarianism might be necessary to promote efficiency, growth, transparency and accountability.

Specifically, the newly industrialized countries of the Pacific Rim – South Korea, Hong Kong, Malaysia and Indonesia – achieved highly impressive growth rates under authoritarian systems of government. However, by the 1980s, the belief about the links has taken another turn. There was a growing feeling that what seems crucial for economic growth was the degree of government rather than the kind of government. Less government, irrespective of the form, was considered the best for growth (Onwioduokit, 1999). By the 1990s, that feeling had somewhat been mellowed moderately. The prevailing idea today is that bad government indeed is an obstacle to growth and good government, in the context of democracy, is indispensable. A good government should be able to carry out the following tasks, among others, effectively:

- Establishing a foundation of law
- Maintaining a non distortionary policy environment, including macro-economic stability
- Investing in basic social services and infrastructure:
- Protecting the vulnerable groups in the society
- Protecting the environment.

A good government will be more effective in accomplishing the above tasks if it is attentive and listens to the civil society and works in partnership towards specified societal goals. The links between good governments and economic growth are quite obvious. Elements of good government, such as unambiguous laws that are transparently enforced, availability of reliable and easily accessible information, availability of adequate and functional infrastructure and basic services, high level of dedication and efficiency in job performance, and low level or absence of corruption; are clearly significant impetus for economic growth. Their opposites are growth retarding (Prizeworski and Limongi, 1993). On the other hand, if the creation of populist political institutions would be the dominant elements of good government, it is not clear-cut how this would engender good government and economic growth. There appears to be no clear link between democratic government and economic growth in developing countries. Also democracy obviously is no guarantee for good government (Obadan, 1998). There are too many ‘democratic’ governments that are neither honest, efficient or growth promoting. No consistent relationship exists between broad categories of political systems and an equitable distribution of income. However, Nigeria’s experience tends to support the view that dictatorship and bad government are obstacles to growth and development. Economic growth and other

indices of development and welfare have not been impressive under the periods of military rule. For example, average real economic growth rate declined from an average of 3.6% over the 1984 – 1993 period to 2.2% in the period, 1994-96. Per capita income has not done better. It declined precipitously from about US\$ 800.00 in 1980 to US\$ 250.00 in 1996. In effect, it can be said that, with respect to development, democratic institutions have the great advantage of providing a moderate change. Democracies are less prone to violent upheaval than non-democratic systems and consequently, provide better political framework for national development. The freedom of association expression and participation inherent in democracies are values in and of themselves independent of their instrumental values as means to other goals. And of course, if democracies are working well, they would tend to create strong incentive for accountability and good governance. But if they are not working well, lack of accountability and bad governance would tend to characterize the process of economic management and such economic development would be retarded (World Bank, 1992).

## **5. Research Design and Methodology**

In realizing the importance of governance in economic growth and development, this study applied inferential statistics to examine the effect of political governance on selected economic variables in Nigeria. Secondary data were collected from the Central Bank of Nigeria Statistical Bulletin and Journal publications for period of 1960 to 2006. The data were analysed using T- and multiple regression analysis. The T-test is a standard method of comparing two sets of data. In this study, the sets of the data are some of the economic variables that capture economic growth and development in the two regimes as indicated in this study. The formula for T-test can be stated as

$$T - Calculated = \frac{A - B}{SE_A^{0.5} + SE_B^{0.5}}$$

Where A and B are the averages of economic variables (Unemployment, Food Production per Capita, Inflation, Industrial Capacity Utilization and Gross Domestic Product, Industrial Work Stoppage and Trade Dispute) during civilian and military regime. SE0.5A and SE0.5B are the square roots of standard errors of A and B respectively. The T- cal will then be compared with T-ratio tabulated at a given degree of freedom. This will enable us to test for significance of difference between the economic variables of A and B.

The regression analysis was conducted to determine the potential of one variable to influence others. In using regression analysis, different functional forms of linear, power, semi logarithm and exponential functions were tried and the ‘lead’ equations were selected based on econometric, statistical and economic criteria. In testing the influence of governance on economic growth and development in Nigeria, five models were built. There are the Food Production per Capita Model (Food), the Inflation Model (Inflation), the Industrial Capacity Utilization Model (Capacity), the Unemployment Model (Unemployment) and the Gross Domestic Product Model (GDP):

The Food Production model is implicitly stated as

$$\text{For food model } F_p = f(\text{INF}, \text{GOV}, \text{INS}, \text{GDP}, \text{FMC}, \text{U}) \quad - - - (1)$$

The Inflation model is implicitly state as

$$\text{INF} = f(\text{FP}, \text{GOV}, \text{GDP}, \text{FMC}, \text{U}) \quad - - - (2)$$

The Capacity Utilization model is implicitly stated as

$$\text{CU} = f(\text{GOV}, \text{GDP}, \text{FP}, \text{INS}, \text{ITD}, \text{U}) \quad - - - (3)$$

The Unemployment model is capacity stated as

$$\text{UN} = f(\text{GOV}, \text{GDP}, \text{ITD}, \text{FMC}, \text{CU}, \text{U}) \quad - - - (4)$$

The Gross Domestic Product model is implicitly stated as

$$\text{GDP} = f(\text{UN}, \text{GOV}, \text{INS}, \text{FMC}, \text{CU}, \text{U}) \quad - - - (5)$$

Where,

FP = Food Production per capita (ton)

INF = Inflation rate (%)

GOV = Political Governance (dummy variable, I for civilian regime, 0 for military regime).

INS = Industrial Work Stoppage (Number)

GDP = Gross Domestic Product (at 1984 constant factor cost) (~~N~~million)

FMC = Deflated Food Import per Capita (Naira (~~N~~)).

CU = Industrial Capacity Utilization (%)

UN = Unemployment rate (%)

ITD = Industrial Trade Dispute (Number)

U = Error term

These diverse variables were selected not only to capture the determinants of economic growth but also to measure economic development which affects various aspects of human existence and well being.

## **6. Research Results and Discussions**

The T-test result summary presented in Table 2 shows that the average inflation rate during military regime was 22.19% which was significantly higher than 10.75% average for civilian regime. The inflationary rate during military era may be flamed by excessive government spending, especially defence budget and acquisition of arms and ammunition. The result also shows that the average GDP at 1984 constant factor cost were 85324.20 ₦million and 74135.33 ₦million during military and civilian respectively as indicated in Table 2. The GDP during the military regime was significantly higher during military regimes than during the civilian era. Since the growth of GDP does not measure the totality of economic development and welfare; this may not indicate that Nigerian economic development was higher during military than during civilian regime; moreover the growth was attended with higher inflation and unemployment (inflation and unemployment rates were higher during the military than during civilian regimes as indicated in Table 2). For good governance to be effective, it is also of paramount importance how the economic growth is distributed to increase the welfare of the people. (The growth in GDP may not be a result of growth of the economy, it also may be due to an increase in the price of petroleum, which is the economic life wire of Nigeria. The oil price indeed, is very volatile.) The fact that the GDP was higher during military regime than during civilian government in Nigeria was also mentioned by Chete and Robert (1996). The higher GDP witnessed during military era made Odetola (1982) to conclude that military regime may spur economic growth. However, Gana (2000) concludes that civilian regimes performed better than military regimes in promoting economic prosperity.

Deflated food import per capita was significantly higher (₦52.70) during civilian than during military era (₦7.33). This indicates that civilian government imports food more than military government<sup>1</sup>. However, there is no significant difference in unemployment,

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<sup>1</sup> The oil boom created corresponding increases in imports. The government undertook the importation and sale of cheap foreign grains (particularly rice, wheat flour, vegetable oils, meat product, thereby flooding the local markets with high quality imported foods at prices which are substantially lower than the unit costs of producing their local substitutes. As a result, these domestically produced substitutes were rendered

industrial capacity utilization, food production per capita, industrial trade disputes, and work stoppage between the two regimes.

**Table 2: Summary and T-Test Analysis of Economic Performance during Political Governance in Nigeria**

<b>Economic Performance</b>	<b>Military (Average)</b>	<b>Civilian (Average)</b>	<b>T-calculated</b>
<b>Unemployment (%)</b>	12.56	10.53	0.52
<b>Industrial Capacity Utilization (%)</b>	52.60	52.84	0.36
<b>Food Production per Capita (ton)</b>	0.50	0.56	0.07
<b>Inflation (%)</b>	22.19	10.75	2.96*
<b>GDP at constant factor cost (₦million)</b>	85324.20	74135.33	58.99*
<b>Industrial work stoppage Number)</b>	118.60	101.00	1.24
<b>Industrial Trade Dispute (Number)</b>	168.00	167.00	0.12
<b>Deflated food import (₦)</b>	7.33	52.70	4.70*

Source: Computed from Central Bank of Nigeria Statistical Bulletin of various years

\* It indicates the difference is significant at 5% significant level in the tested parameter if compared with theoretical value of 1.90.

Using econometric, statistical and economic criteria, power function was selected as lead equation for food production model. The regression result of power function is presented in Table 3. The adjusted  $R^2$  is 0.96, which indicates that inflation rate, political governance, industrial work stoppage, GDP and deflated food import per capita explains 96% variation in food production per capita in Nigeria in the years under consideration. The F-Value of 29.67, which is significant at 5%, suggests that the food production model is significant and hence the equation can represent the model. The result of food production model shows that political governance has significant influence on food production per capita. This means that if the right political and economic environments are created by political regime, the food production in Nigeria can be significantly increased. This is evident during military rule of Babangida era which introduced Structural Adjustment

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uncompetitive with the cheaper imports, and their production declined drastically. But when the rising import bills could not be sustained, a tight trade policy had to be introduced in the 1977-1978 period. Under that policy, many items were restricted (Mayong et al, 2005).

Programme (SAP) that encouraged domestic food production, which is low in Nigeria as noted by Imahe and Alabi (2005).

**Table 3: The Effect of Governance on Food Production per Capita**

	Linear Coeff.	t-ratio	Power Coeff.	t-ratio	Semilog Coeff.	t- ratio	Exponent. Coeff.	t-ratio
<b>Constant</b>	0.425	0.921	27.138	3.89**	0.559	0.610	-0.517	-0.582
<b>Inflation</b>	1.109	2.360**	-0.321	-2.87**	0.070	0.274	0.997	2.406**
<b>Governance</b>	-0.226	-0.824	-0.590	-3.87**	-0.250	-0.907	-0.319	-1.320
<b>Industrial Work Stop- ping</b>	0.225	0.652	0.368	2.62**	-0.159	-0.548	0.080	0.232
<b>GDP</b>	0.558	11.423* *	-0.197	-1.62	0.215	0.615	-0.582	-1.685
<b>Food Im- port Capita</b>	1.345	2.705**	1.108	6.87**	0.872	2.697	1.242	2.833**
<b>R<sup>2</sup></b>	0.79		0.96		0.76		0.84	
<b>F</b>	5.81		29.67		5.61		7.281	

Source: Computed from Central Bank of Nigeria Statistical Bulletin of various years (coeff.=coefficient,ff.)

\* Significant at 10% level of significance

\*\* Significant at 5% level of significance

Using the same econometric, statistical and economic criteria, power function was selected to represent the inflation model. Table 4 shows that the inflation model equation is significant at 5% level of significance ( $F = 4.69$ ). The adjusted  $R^2$  square of 0.71, indicates that food production per capita, governance, GDP and deflated food import per capita explain about 71% variation in the inflation rate of Nigeria in the years under consideration. The production per capita of 1.102 is not a significant determinant of inflation at 5% level of significance. This implies that food production per capita in Nigeria is too low to impact the inflation rate significantly. Other scholars have noted low food production in Nigeria (Imahe and Alabi, 2005:269). The governance coefficient of 0.507, which is significant at 5%, suggests that governance has significant relationship with inflation. The positive signs indicate that the inflation is higher during military than during civilian. This is evident in Table 2. The average inflation rate during military is 22.19%, which is higher than during the civilian era (10.75%). Food importation has positive and significant relationship with inflation, which implies that food importation may increase the



general price level in Nigeria. The growth of GDP has a negative relationship with the inflation rate. This suggests that the growth of GDP would be a positive way of controlling inflation in the economy (This is possible if the increase in GDP leads to increase in output and productivity of real sectors such as agriculture and manufacturing sectors).

**Table 4: The Effect of Governance on Inflation**

Variable	Linear Coeff.	t-ratio	Power Coeff.	t-ratio	Semilog Coeff.	t-ratio	Exponent. Coeff.	t-ratio
Constant	7.485	0.743	32.133	-0.028	0.559	0.610	2.347	2.560**
Food production per capita	0.615	2.670**	1.713	1.102	0.070	0.274	0.385	0.945
Govern.	0.042	0.296	0.507	3.320**	-0.250	-0.907	0.068	0.269
Deflated Food import	0.372	3.000**	1.306	-2.301**	-0.159	0.548	0.445	2.022**
GDP	-0.939	-4.681	-2.000**	-2.320**	0.872	2.697**	-0.882	-2.484**
R <sup>2</sup>	0.95		0.711		0.190		0.830	
F	21.807**		4.688**		1.290		6.82**	

Source: Computed from Central Bank of Nigeria Statistical Bulletin of various years

Using the same econometric, statistical and economic criteria, power function was selected to represent the inflation model. Table 4 shows that the inflation model equation is significant at 5% level of significance ( $F = 4.69$ ). The adjusted  $R^2$  square of 0.71 indicates that food production per capita; political governance, GDP and deflated food import per capita explain about 71% variation in inflation rate in Nigeria in the years under consideration. The findings from the inflation model suggest that political governance has a significant relationship with inflation. This suggests that the way governance is run and financed can determine whether there will be inflation in the economy or not. It also supports the T-test statistic showing that the inflation rate was higher during military than during civilian rule.

Table 5 presents the capacity utilization model. Power function was selected as lead equation. The adjusted R square of 0.72 indicates that political governance, GDP, food production, work-stoppage and trade dispute explains 72% variation in capacity utilization in Nigeria. The capacity utilization model equation is significant at 5% significance

level with F-value of 4.138; indicating that the equation represents the model well. Table 5 shows that political governance has no statistical significant influence on industrial capacity utilization; which indicate that the political set-up in Nigeria has not been able to increase industrial capacity utilization. It also suggests that there are other exogenous variables influencing industrial capacity utilization. Corporate governance, economic governance, business environment, political security, foreign direct investment and good market for example, are important determinants of industrial capacity utilization. Table 2 shows that the average capacity utilization during civilian and military era was 52.84% and 52.60% respectively.

**Table 5: The Effect of Governance on Capacity Utilization**

Variable	Linear Coeff.	t-ratio	Power Coeff.	t-ratio	Semilog Coeff.	t-ratio	Exponent. Coeff.	t-ratio
Constant	7.485	0.743	32.133	-0.028	0.559	0.610	2.347	2.560 **
Food production per capita	0.615	2.670 **	1.713	1.102	0.070	0.274	0.385	0.945
Govern.	0.042	0.296	0.507	3.320 **	-0.250	-0.907	0.068	0.269
Deflated Food import	0.372	3.000 **	1.306	-2.301 **	-0.159	0.548	0.445	2.022 **
GDP	-0.939	-4.681	-2.000 **	-2.320 **	0.872	2.697 **	-0.882	-2.484 **
R <sup>2</sup>	0.95		0.711		0.19		0.83	
F	21.807 **		4.688 **		1.29		6.82 **	

Source: Computed from Central Bank of Nigeria Statistical Bulletin of various years

Table 6 presents an unemployment model. Semilog was selected as the lead equation. The adjusted R square is 0.98, which means that governance, GDP, trade dispute, deflated food import per capita and capacity utilization explains 98% variation in unemployment rate in Nigeria. F-value of 712.06; which is significant at 5% indicates that the equation represents the unemployment model well. The Table 6 indicates that political governance has a significant influence on unemployment; this implies that political governance has potential to increase or decrease unemployment. Table 2 shows that average unemployment rate during military and civilian regimes were 12.56% and 10.53% respectively with no statistical significant difference. This may be due to the fact that the

higher absolute value of GDP generated during military regime is not translated to employment generation; therefore it may not promote economic development as indicated previously.

**Table 6: The Effect of Governance on Unemployment**

	Linear Coeff.	t-ratio	Power Coeff.	t-ratio	Semilog Coeff.	t-ratio	Exponent. Coeff.	t-ratio
Constant	5.839	0.759	-15.42	-1.233	-89.53	-7.81 **	1.863	1.836 *
Governance	0.127	1.011	0.315	1.394	0.131	6.43 **	0.354	2.097 **
GDP	0.477	2.686 **	0.562	1.839*	0.339	12.33 **	0.491	2.059 **
Number of trade dis- pute	0.241	0.974	0.186	0.452	0.212	5.75 **	-0.116	-0.349
Food imp- port/capita	0.113	0.668	-0.113	-0.281	0.280	7.78 **	-0.273	-1.201
Capacity utilization	-0.756	3.987 **	-0.763	-1.939	-0.672	-19.01 **	-0.646	-2.531 **
R <sup>2</sup>	0.94		0.79		0.98		0.88	
F	1.21		5.56 **		712.06**		10.01 **	

Source: Computed from Central Bank of Nigeria Statistical Bulletin of various Years

\* Significant at 10% level of significance

\*\* Significant at 5% level of significance

The GDP model is presented in Table 7. Semi log function was selected as lead equation. The F = 3.413 is significant at 5% level of significance, the adjusted R<sup>2</sup> of 0.67 indicates that unemployment, political governance, work-stoppage, food importation and capacity utilization explains 67% variation in Gross Domestic Product. Political governance has significant relationship with the Gross Domestic Product. Table 2 shows that GDP was higher during military than during civilian era. As it has been indicated before, the increase in GDP during military is associated with high inflation and unemployment, so it does lead to economic development, if economic development is perceived from the point of view of Meier (1976) and Goulet (1971).

**Table 7: The Effect of Governance on Gross Domestic Product**

	Linear Coeff.	t- ratio	Power Coeff.	t- ratio	Semilog Coeff.	t- ratio	Exponent. Coeff.	t- ratio
Constant	-78675.5	0.632	8.528	3.803 **	9.368	11.437 **	-38255	-0.606
Unemployment	2.892	1.64	1.542	1.893 *	1.660	1.680 *	1.464	1.453
Governance	-0.395	-1.033	-0.541	-1.076	0.285	673 **	0.607	-0.976
Work stoppage	-0.994	0.684	-0.262	-0.315	-0.556	-1.179	0.171	-0.166
Food import	-0.455	0.776	0.231	0.342	0.595	0.142	0.341	0.409
Capacity utilization	2.739	1.038	1.067	1.312	0.770	0.21	0.986	0.980
R <sup>2</sup>	0.49		0.45		0.67		0.16	
F	2.14		1.20		3.413		1.235	

Source: Computed from Central Bank of Nigeria Statistical Bulletin of various Years

\* Significant at 10% level of significance

\*\* Significant at 5% level of significance

## 7. Policy Implications

This study established the fact that the types of political governance put in place in Nigeria have not significantly influenced capacity utilization, employment, industrial capacity utilization, food production per capita and industrial harmony. In essence it has not generated economic development as expected. That may explain why industrial capacity utilization in Nigeria declined from 76.6% in 1966 to the present 36% in 2004 (CBN, 2004) despite different types of government put in place within the period.

In order to formulate governance relevant in achieving the economic development in Nigeria, democratic government should be encouraged as the study shows that lower unemployment, higher industrial capacity utilization, higher food production per capita, a lower inflation rate, lower numbers of trade disputes, and lower numbers of work-stoppage were recorded during civilian regimes. However, the differences in these parameters were not significant due to the way the governance is practiced in Nigeria. Since the study shows that political governance has an influence on most of these parameters, therefore a change in the way the governance is ran in Nigeria can influence these parameters positively.

Political governance should be practiced consequently in Nigeria to ensure:

- (1) **Accountability of Government Officials (Political Leaders and Bureaucrats) for public funds and resources.** Everybody must follow due processes as enshrined in the constitution.
- (2) **Transparency in Government Procedures, Processes, Investment Decisions, Contracts and Appointments.** By the present democratic government in Nigeria prevention of corruption has to be seriously pursued. However, people believe that the government is not doing it transparently. There are sacred-cows, may be as a result of being party loyalists, being a friend of the president, or because they support a third term bid of the president, so that they were never prosecuted, despite the fact that they have been involved in the misappropriation of public funds. Impartial prosecution of corruption will not enhance economic efficiency.
- (3) **Predictability in Government Actions.** This is particularly critical to the carrying out of economic transactions between individuals and in taking investment decisions: governments and public institutions should not be capricious in their behaviour and their actions. Nigerian democratic institutions must not behave like military establishments.
- (4) **Openness in Government Transactions and a Reliable Flow of Information** are necessary for economic activity and development to take place. An open system should, thus, be encouraged to release information to stakeholders and to promote a dialogue among the people as well as to ensure their active participation in the socio-economic development of the country. A situation where petrol prices were changed without due consultation may not augur well for good governance<sup>2</sup>.
- (5) **Adhere to the Observance of the Rule of Law.** This means that governments and institutions should be subject to rules and regulations that are understood by everyone in the society. Manipulation of the constitution to favour individuals and groups of individuals should be avoided by all means.

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<sup>2</sup> Petroleum prices were frequently increased in Nigeria. For example, President Obasanjo increased the petroleum prices six times between 1999 and 2006. Each of this increase is always greeted with resistance from labour union which normally resulted in labour unrest and trade disputes with resultant job losses.

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## **Reconstruction of Economic Governance in the Niger Delta Region in Nigeria: The Case of the Niger Delta Development Commission**

Ben E. Aigbokhan

### **Abstract**

*The oil sector has been the mainstay of the Nigerian economy since the 1970s. It is estimated that Nigeria has earned about \$400 billion from oil production in the past four decades. The sector contributes 90 percent to export earnings and over 80 percent to government revenue. The Niger Delta region is the bedrock of Nigeria's oil production. It is estimated that over 30 billion barrels of crude oil and about 30 trillion metric tons of gas have been produced from the region. Yet the region has not recorded commensurate benefits from oil production activities. Apart from the little direct linkage with the domestic economy of the region, the ecosystem of the region has been greatly degraded.*

*Starting with the Henry Willink Commission of 1957 which recommended the establishment of the Niger Delta Development Board (NDDDB) created in 1960, to the Oil Mineral Producing Areas Development Commission (OMPADEC) established in 1992, the government has recognized the need to address the special and peculiar situation of the region. These various attempts, however, still did not make noticeable positive impact in the region. Violent agitations grew by the day, culminating in calls for 'resource control' by residents of the region. In a renewed attempt to address the problem of the region, the government established the Niger Delta Development Commission (NDDC) in late 1999 as an instrument for reconstructing economic governance in the region.*

*The assessment of activities of the Commission over the seven years of its existence shows that it has been used to construct roads, jetties, schools, boreholes, basic health facilities. Despite this, however, evidence abounds that poverty level, unemployment level, cost of health and education, and lack of access to social infrastructure are higher in the region than the national average. The continued violence in the region is a testimony that the commission's activities have had little impact.*

*Failure on the part of NDDC to significantly improve economic reconstruction in the region was found to be due to structural defects in the operations of the commission as well as a lack of judicious application of the funds allocated to it. Specifically, it was*

*found that projects and contractors were selected on political patronage, with little conscious attempt to involve anticipated beneficiaries in the selection, location and execution of such projects. Also, the lack of transparency in these decisions has tended to result in below “value for money” service deliveries.*

*There has, however, emerged a basis for optimism that a more judicious application of funds may begin to come forward in the region during the past twelve months. Various initiatives by government and civil society aimed at enhancing transparency in financial transactions in oil-related activities, such as the Publish What You Pay (PWYP), and the Nigeria Extractive Industry Transparency Initiative (NEITI), as well as the Economic and Financial Crimes Commission (EFCC), are all likely to result in “value for money” development initiatives. Also, with greater involvement of stakeholders in its activities, NDDC should begin to transform to a more effective instrument for economic management and governance in the Niger Delta region.*

## **1. Introduction**

The Nigerian economy is dependent on the oil sector. Although 43 percent of the Gross Domestic Product (GDP) is contributed by the sector, over 90 percent of the nation’s exports and over 80 percent of government revenues is derived from the sector. In the past forty years, the nation has earned about \$400 billion from oil production. The Niger Delta region, comprising Akwa Ibom, Bayelsa, Cross River, Delta, Edo, Ondo and Rivers States, is the bedrock of the nation’s crude oil production. It is estimated that over 30 billion barrels of crude oil and almost 30 trillion metric tons of gas have been exploited from the Niger Delta Basin till date (The Guardian, 2006 a).

The region, particularly the hub of oil production, comprising Bayelsa, Delta and Rivers States, has however, not witnessed noticeable developmental impacts of crude oil production. The region is known to lack basic social amenities and the level of infrastructural facilities has been much below the national average. Also, unemployment and poverty levels in the region are generally above the national average, as demonstrated in Table 3 and Table 9. This outcome has generated much resentment among residents of the region and has resulted into series of conflicts and violence that characterized the region in more than a decade.

The resentment and attendant conflicts are heightened by the fact that the environment has greatly deteriorated due to oil exploration and exploitation, endangering the Niger

Delta land, water, atmosphere and aquatic life. In addition, a large portion of the landmass is occupied by oil exploitation outfits for production, transportation, storage, refining and utilisation. The sparse available land for the rural communities of the Niger Delta becomes insufficient for their own economic activities. This led into deforestation, decline in the fertility of the soil due to intensive use as well as losses in income, thus aggravating the unemployment situation in the area. With incidence of poverty, unemployment and conflicts over available land among the people of Niger Delta, there seems to be an increasingly high level of social problems in the region where the fortune of the nation lies (Egbon and Okoh, 1999).

In March 2003, all major oil companies operating in Warri withdrew staff and closed down operations, with the consequence that the production dropped by 817,000 barrels per day, amounting to 40% of national oil production (Joab – Peterson, 2004). The most significant protest in the Niger Delta was led by the Movement for the Survival of Ogoni People (MOSOP). The Ogoni Bill of Rights was issued in 1990. The MOSOP's operational tactics was replicated across the Niger Delta communities and particularly among the Ijaw communities. On December 1998, the Ijaw youth council issued the Kaiama Declaration. The combination of these movements precipitated serious crises and conflicts in the Niger Delta. The major conflicts include: Eleme-Okrika conflict, Andoni-Ogoni conflict, Basambi-Ogolomabiri conflict, Ijaw-Itsekiri-Urhobo conflict.

These conflicts resulted in loss of man, material, money and means of livelihood. The most current and dramatic aspect of the crises in Niger Delta is the recent hostage taking, which attracted national and international condemnations. On 23<sup>rd</sup> of February 2006, Ijaw youths kidnapped nine expatriate oil workers, they kept them for ten days before they released six of them on 3<sup>rd</sup> of March 2006. Much more cases of kidnapping of oil workers, both expatriates and Nigerians have been reported since then.

The issue of how to reduce these conflicts attracts attention because the economic costs of conflicts led to significant reduction in economic growth. According to the Centre for the Study of African Economies (CSAE, 2005), one year of conflict reduces a country's economic growth rate by 2.2%. Conflict also has severe effects on human health. An average conflict causes an estimated 0.5 million each year Disability Affected Life Years (DALYs) – a measure of the total number of people affected and the period for which their disability lasts. If each DALY is valued at \$1000 (roughly the per capita income in many high risk countries), the economic costs of harm to human health in a typical war or

conflict would count for about \$5 billion (CSAE, 2005). The issue at stake would be how good economic governance could reduce the conflicts in Niger-Delta? What would be the economic reconstructing instruments being used in the place. The evaluation of the above questions is important to economic development and peace in Nigeria and Niger- Delta in particular.

The following paper is structured into six sections. Section two presents the historical evolution of attempts at economic reconstruction in the Niger Delta. Section three presents socio-economic profile of the region which has tended to fuel conflicts in the region despite these attempts at economic reconstruction. Section four assesses the Niger Delta Development Commission (NDDC) as an instrument of economic reconstruction in the Niger Delta. Section five discusses efforts made by government and other stakeholders at ensuring transparency in management of oil revenues in the Niger Delta, and section six is concluding the paper.

## **2. The Historical Evolution of Economic Reconstruction in the Niger Delta**

The first constitutional step taken to develop the Niger Delta Region was the appointment of the Henry Willink-led Minority Rights Commission in September, 1957. The Henry Willink Commission described the Niger Delta as “poor, backward and neglected, (about which) the whole of Nigeria is concerned. We suggest that there should be a Federal Board appointed to consider the problems of the Niger Delta”.(Willink Commission Report,1958)

The Commission recommended, among others, the following:

- The development of a special area should be placed on the concurrent list.
- The special area should be created in the Niger Delta region to cover the Rivers Province except Ahoada and Port Harcourt, and including the Western Ijaw Division.
- A board with a federal chairman should be created for the special area to which the Federal, Western and Eastern Region should contribute funds and staff for the purpose of a survey of the particular problems of the special area, and which would be the draw up plans for its development.
- The board should initiate schemes to supplement the normal development of the special area which should be carried out by the government concerned, the federal

government contribution being one-third of the capital cost and one-third of the recurrent cost for periods which may extend to ten years.

- A report regarding the plans made by the board and the progress made in carrying them out should be laid annually on the tables of the Federal House of Representatives and the Western and Eastern Houses of Assembly.
- The existence of any special area should be reviewed continually. As soon as the features that made it a special area are reduced, the need to terminate the special area status or to convert it to a minority area should be considered.

Subsequently and following the above recommendations, the Niger Delta Development Board was created by the 1960 Constitution. (Willink Commission Report, 1958)

### **2.1. The Niger Delta Development Board**

Section 14 of the 1960 Constitution established the Niger Delta Development Board to provide physical development for the Niger Delta Region.

In 1961, Nigeria's federal parliament enacted the Niger Delta Development Board Act of 1961 to comply with Section 14 of the 1960 Constitution. The board, however, could not provide any meaningful development for the Niger Delta Region because of lack of political will and commitment. The Federal Military Government suspended the constitution when it came to power in 1966. The autonomy of the region was consequently taken away by military decrees. For example, Decree No 9 of 1971 repealed Section 140 (6) of the 1963 Constitution which ceded oil revenue from the continental shelf to the regions.(see Petroleum Resources Decree No.9 of 1971).

### **2.2. The Oil Mineral Producing Areas Development Commission (OMPADEC)**

Isaac Adaka Boro led a short-lived rebellion in 1967. The April 1990 Gideon Orkar-led attempted coup d'état where Niger coup elements participated significantly, reopened the violent part of the politics of Niger Delta (Isumonah, 2004). The Ogoni's agitations soon followed the coup d'état. In response, government established the Oil Mineral Producing Areas Development Commission (OMPADEC).

The Federal Military Government of General Ibrahim Babangida promulgated the OMPADEC Decree No 23 of 1992 to address the years of neglect of the Niger Delta Region, Section 2 of the decree states.(see OMPADEC Decree 1992).

### **2.2.1. The Objectives of the OMPADEC**

The objectives of the commission include:

- a) Receipt and administration of the monthly sums from the allocation of the Federation Account in accordance with confirmed ratio of oil production in each state
- b) Rehabilitation and development of all mineral in Niger Delta areas
- c) Management of ecological problems that have arisen from the exploration of oil minerals
- d) Determination and identification of the actual oil mineral-producing areas and embark on the development of projects properly agreed upon with the communities of the oil mineral-producing areas through the commission and the respective oil mineral producing states
- e) Obtainment of the proper formula for accrual oil mineral production of each state, local government area and distribution of projects, services and employment of personnel in accordance with recognized percentage production by the Nigerian National Petroleum Corporation
- f) Execution of other works and performances that would be necessary in the view of the commission to move toward in the development of the oil mineral – producing areas.

### **2.2.2. The Use of Money Received by the OMPADEC**

The sums received by the commission (see 2.2.1 a) shall be used for the rehabilitation and development of the oil mineral-producing areas on the basis of the ratio of the oil produced in the particular areas and not on the basis of dichotomy of on-shore or off-shore oil production.

Section 4a (2) of the Allocation of Revenue (Federation Account) (Amendment Act No 106 of 1992) provides that 3 percent of the federation account derived from mineral revenue be paid into a fund to be administered by the OMPADEC (Federation Account(Amended)Decree No.106 of 1992).

Once again, OMPADEC also failed to ensure the development of the Niger Delta Region. Abandoned, uncompleted ‘white elephant’ projects of OMPADEC are now common features in the region. Government officials and their cronies appointed into OMPADEC looted the funds away from the region’s development. For instance, Akpo Mudiaga Odje observed that the implementation of the decree was stalled and defeated by large-scale

fraud, corruption and fund diversions by some of the chairman and staff of the commission. Failure to implement the law destroyed its genuine intention while the commission became a conduit pipe through which large sums of money belonging to the Niger Delta and its people were misappropriated. The Nsiakak Eduok committee discovered that out of 2239 projects by OMPADEC, 76 had N3.91billion (\$39 million) paid without any job being done (Joab-Peterson, 2004). At the time the commission was dissolved, it was owned over N100 billion (\$1billion) in short fall and miscellaneous unpaid entitlements (NDDC Project, 1999). The failure of this intervention agency again fuelled more agitation and violence, which reached its peak in 1998 when youth disrupted oil production activities frequently (Joab-Peterson, 2004). Given these scenarios, OMPADEC was scrapped by President Olusegun Obasanjo, and was replaced by the NDDC.

### **3. The Socio-economic Profile of the Niger Delta Region**

The major cause of conflicts in the Niger Delta is associated with the impoverishment of the inhabitants of the area. The neglect of the area has compounded the poverty, frustration and dislocation of the people for a long time (Orubu 2000, Aboribo 2000). Although, the area is termed to be rich in land, people, oil and natural gas resources, the people of the area remain largely impoverished. The unemployment rate in Niger Delta is higher than in most other regions in Nigeria. The unemployment in the region is 22% compared to 18% national average (Aigbokhan et al, 2004). Due to oil exploitation activities, farmers, fishermen, herbalists and rural women are out of job leading to starvation, malnutrition and poor health.

Despite the various attempts at economic reconstruction, the socio-economic situation in the region did not show much improvement. As shown in Table 1, the mean income in the region was generally above the national average in 1980, it started to decline below the national average of 1985. In 1996 it had declined even more significantly in most parts of the region. The same pattern is depicted by per capita expenditure, as shown in Table 2.

**Table 1: Total Mean Income (in 1996 Prices)**

States	1980	1985	1992	1996
<b>Akwa Ibom</b> } <b>Cross River</b>	13949.70	7297.63	9208.71	5063.7
<b>Delta</b> } <b>Edo</b>	13732.25	6622.15	8806.11	6394.4
<b>Ondo</b> } <b>Ekiti</b>	14127.74	6562.58	10222.3	4453.6
<b>Rivers</b> } <b>Bayelsa</b>	20937.03	8394.40	7798.41	9359.6
<b>Nigeria</b>	13454.00	6937.49	8884.00	6252.2

Source: Federal Office of Statistics, Poverty profile for Nigeria 1980 – 1996, Lagos, 1999

**Table 2: Mean per Capita Expenditure (in 1996 Prices)**

States	1980	1985	1992	1996
<b>Akwa Ibom</b> } <b>Cross River</b>	4958.30	1631.33	1668.61	962.39
<b>Bendel</b> } <b>Delta</b> } <b>Edo</b>	2651.11	1130.20	1647.88	1108.49
<b>Ondo</b> } <b>Ekiti</b>	4892.48	1243.02	1643.31	856.72
<b>Rivers</b> } <b>Bayelsa</b>	6481.44	1337.38	2276.68	1680.37
<b>Nigeria</b>	2400.88	1265.90	1781.70	1048.00

Source: Federal Office of Statistics, Poverty profile for Nigeria 1980 – 1996, Lagos, 1999

Table 3 depicts the poverty profile of the region. It is observed that whereas poverty level was below national average in 1980, by 1996 it had generally risen above national average. Also, whereas poverty incidence in the south-south zone (Niger Delta region) was much lower than in the other zones, particularly in the northern zones in 1980, in 1985



and in 1996 the gap had narrowed significantly, an indication of worsening poverty in the region.

**Table 3: Percentage Poverty Headcount by States and Zone**

	1980		1985		1992		1996		2004		Pov- erty Incidence
	Core Poor	Mod- erately Poor	Core Poor	Mod- erately Poor	Core Poor	Mod- erately Poor	Core Poor	Mod- erately Poor	Core Poor	Mod- erately Poor	
Akwa Ibon Cross Riv.	2.9	7.3	4.4	37.5	15.6	29.8	29.3	37.6	34.82	41.61	71.73 41.61
Delta Edo	4.7	15.1	17.5	34.9	8.0	25.9	20.7	35.4	45.35	33.09	45.35 33.09
Ondo Ekiti	11.5	13.2	15.6	31.6	19.6	26.9	34.1	37.5		42.14	42.14 42.27
Rivers Bayelsa	1.3	5.6	8.1	36.3	16.0	27.4	19.1	25.2	29.09	19.98	29.09 19.98
Nigeria	6.2	21.0	12.1	34.2	13.9	28.9	29.3	36.3	22.0	32.4	54.4
<b>Geopo- litical Zones:</b>											
North East	11.8	23.8	16.4	38.5	18.5	35.5	32.2	36.4	27.9	44.3	66.1
North West	8.3	29.4	14.2	37.9	9.0	27.6	34.9	39.7	26.8	44.3	62.4
North Central	5.7	26.5	16.4	34.4	14.8	31.2	21.2	35.7	29.8	37.2	62.3
South East	2.4	10.6	5.4	25.0	15.7	25.3	28.3	33.4	7.8	19.0	34.0
South West	2.1	11.3	9.0	29.6	15.7	27.4	27.5	33.4	18.9	24.2	42.7
South South	3.3	10.0	9.3	36.4	13.0	27.8	23.4	34.8	17.0	18.1	50.5

Source: FOS (Federal Office of Statistics), Poverty profile for Nigeria 1980-1996, Lagos, 1999 and National Bureau of Statistics (NBS), Poverty profile for Nigeria, Abuja, 2005 (March)

Note: In the 2004 survey, results were reported separately for each of the two states which in the 1996 survey were still one state. Akwa Ibom & Cross River were previously Cross River State, Delta & Edo were Bendel State, Ondo & Ekiti were Ondo State, Rivers & Bayelsa were Rivers State.

Table 4 depicts the health situation in the Niger Delta. The health situation in Niger Delta is worse than the national average in all the health indicators examined in Table 4; average of about 6 days were the numbers of days that people fell sick within two weeks in Niger Delta, while the national average was 5 days. This indicates that people of Niger Delta have 0.43 probabilities of falling sick within two weeks, while the national average

is 0.36. The economic consequence of illness is its ability to retard economic activities. The number of days activities stopped due to illness and injuries was about 7 days within two weeks; the national average was 6 days. This suggests that there is approximately a 50% chance that people of Niger Delta would stop activities due to illness and injuries within two weeks. The number of people who were injured within two weeks was correspondingly higher in Niger Delta (5.08) than the national average (4.86).

This poorer health condition in Niger Delta could have being minimized if people had access to a good health care system. The accessibility to health delivery was hampered by high cost of health services.

**Table 4: Summary of Health Information in Niger Delta and Nigeria (2003-2004)**

State	Days ill in the last 2 weeks	Days activities stopped due to illness in the last 2 weeks	Days injured in the last 2 weeks
Abia	5.35	6.61	4.42
Akwa Ibom	4.38	5.04	4.02
Bayelsa	3.86	5.21	5.84
Cross River	6.05	6.25	6.28
Delta	5.49	6.56	3.87
Edo	4.52	5.63	6.18
Imo	6.31	7.24	4.46
Ondo	4.00	6.08	5.75
Rivers	5.81	6.72	4.88
Niger Delta	5.09	6.14	5.08
Nigeria	5.04	5.68	4.86

Source: NBS (National Bureau of Statistics) (2005), Poverty Profile for Nigeria

Table 5 shows that the average hospital fee in Niger Delta was ₦3821.54 (US\$27) which was also higher than national average of ₦3017.04 (US\$22) in 2004. Hospital fee in Imo and Edo states (₦6929) (US\$50) was more than double times of the national average hospital fee. When the poor health condition in Niger Delta is coupled with the exorbitant hospital fee, the poor human capital status of people in Niger Delta could be imagined. Another important determinant of human capital is education.

Table 5 also paints a picture of low accessibility to education in 2004. The average school fee in Niger Delta was ₦4788.84 (US\$34) which was also higher than the national aver-

age of ₦4231.59 (US\$30). This may explain the low level of formal education and the high unemployment rate as earlier noted by Aigbokhan et al (2004).

**Table 5: Cost of Health and Education in Niger Delta (2003-2004)**

State	Average Hospital Fees	Average School Fees
Abia	3250.00	5017.34
Akwa Ibom	1911.94	5454.95
Bayelsa	2616.67	7304.49
Cross River	5247.39	3935.94
Delta	1135.00	5021.70
Edo	6928.51	2754.15
Imo	6928.52	4686.15
Ondo	2117.50	2334.46
Rivers	4258.33	6590.39
Niger Delta	3021.54	4788.84
Nigeria	3017.04	4231.59

Source: Computed from National Bureau of Statistics (2005) Draft Report of Nigerian Living Standard Survey 2003/2004

The situation of Niger Delta in terms of school and hospital fees is pathetic, considering the huge amount of money devoted to the region. More than ₦2 trillion (US\$ 14 billion) were allocated to Niger Delta within 7 years of democratic governance in Nigeria.

Table 6(a) shows that Delta State got the highest allocation, about ₦387.431 billion, Rivers States placed second with a total of 357.51 billion naira. Akwa-Ibom had the third highest allocation of 313.58 billion naira. Abia State had the least allocation of 102.85 billion naira followed by Cross River state with 126.76 billion and Edo State with 131.54 billion naira. The figures include the monthly statutory allocation from Federation Account, Excess Crude Oil proceeds, 13% Oil Derivation fund, Value Added Tax and Ecological Funds for States and Local Government within the states in the years 1999-2005. Despite these huge financial resources that flow into Niger Delta (see also 6(b), the people of the region are very poor. The self-rated poverty assessment conducted in 2004 shows that 31% of the people in Niger Delta are very poor compared with 24% which is the national average.

**Table 6(a): Revenue Flow to Oil Producing States (June 1999-June 2005)**

<b>State</b>	<b>Amount (₦)</b>	<b>Local Government (₦)</b>
<b>Abia</b>	102,853,702,423.15	NA
<b>Akwa Ibom</b>	313,576,638,229.36	20,757,099,978.26
<b>Bayelsa</b>	285,636,494,323.50	7,358,062,862.51
<b>Cross river</b>	126,756,854.65	13,926,582,625.23
<b>Delta</b>	387,431,716,797.69	18,607,428,019.70
<b>Edo</b>	131,539,515,167.39	14,458,353,856.99
<b>Imo</b>	133,407,024,267.19	NA
<b>Ondo</b>	139,051,991,269.82	NA
<b>Rivers</b>	357,506,042,459.77	19,527,644,120.90

Source: Oil Revenue Watch, 2006 and The Guardian (Lagos) October 8, 2006 p.49

**Table 6(b): Allocation to Eleven Oil Producing States and Communities (January 2005-July 2006, ₦ billion)**

	<b>Jan-Dec. 2005</b>	<b>Jan. 2006</b>	<b>Feb. 2006</b>	<b>Mar. 2006</b>	<b>April 2006</b>	<b>May 2006</b>	<b>June 2006</b>	<b>July 2006</b>	<b>Total Jan- July 2006</b>	<b>Gross Total Jan.2006- July 2006</b>
<b>Abia</b>	3.897	0.365	0.371	0.409	0.321	0.344	0.368	0.375	2.553	<b>6.450</b>
<b>Akwa Ibom</b>	50.370	4.716	4.791	5.295	3.252	4.446	4.757	4.842	32.099	<b>82.469</b>
<b>Bayelsa</b>	69.799	6.525	6.629	7.327	5.747	6.153	6.582	6.699	45.662	<b>115.461</b>
<b>Cross River</b>	4.567	0.427	0.434	0.480	1.278	0.403	0.431	0.439	3.892	<b>8.459</b>
<b>Delta</b>	58.009	5.201	5.284	5.840	4.581	4.904	5.246	5.339	36.395	<b>94.404</b>
<b>Edo</b>	2.491	0.233	0.237	0.262	0.257	0.275	0.295	0.300	1.859	<b>4.350</b>
<b>Imo</b>	4.313	0.404	0.410	0.453	0.356	0.381	0.407	0.415	2.826	<b>7.139</b>
<b>Ondo</b>	13.680	1.511	1.535	1.697	1.331	1.424	1.524	1.551	10.573	<b>24.253</b>
<b>Rivers</b>	87.120	8.156	8.286	9.159	7.184	7.690	8.227	8.374	57.076	<b>144.196</b>
<b>Soku</b>	2.729	0.255	0.259	0.289	0.224	0.241	0.258	0.262	1.787	<b>4.516</b>
<b>ONA/ASA</b>	0.630	0.059	0.059	0.066	-	-	-	-	0.184	<b>0.814</b>
<b>Total</b>	297.608	27.853	28.297	31.277	24.531	26.262	28.095	28.597	194.912	<b>492.520</b>

Source: The Punch, Newspaper, Nigeria, Thursday August 24, 2006, p. 22

#### **4. The NDDC as Instrument of Economic Reconstruction in Niger Delta**

In response to local demands for greater resource ownership and benefits, and in an attempt to defuse the demands for ‘resource control’ President Obasanjo introduced a bill to establish a Niger Delta Development Commission soon after his inauguration. Many from the Niger Delta, however, rejected the bill since it did not address their concerns surrounding revenue allocation and resource control, and that it appeared likely to duplicate similar corruption-ridden bodies created by previous administrations. The law had a stormy passage through the National Assembly, but was eventually passed in July 2000.

The NDDC Act established a governing board for the commission, appointed by the president, and consisting of a chairman, representatives of each of nine oil producing states, representatives of three other states, a representative of the oil companies, and representatives of various federal government departments. The commission is run on a day to day basis by a managing director. The commission is charged with a wide range of tasks, in particular, to conceive, plan and implement in accordance with set rules and regulations, projects and programmes for the sustainable development of the Niger Delta area in the field of transportation (including roads, jetties and waterways health, education, employment, industrialisation, agriculture and fisheries, housing, urban development, water supply, electricity and telecommunications.

The commission is funded by a combination of contributions of the federal and state governments and oil companies as follows: 15 percent of the allocations by the member states of the commission under the “derivation principles” of revenue allocation; 3 percent of the total annual budget of any oil company operating in the Niger Delta; 50 percent of funds by the member states from the ecological fund, a separate federal fund set up for the remedy of ecological problems caused by oil production. The commission has repeatedly complained that these funds are not paid to it in fact; challenging both the government and the oil company to pay completely. Under the legislation, the NDDC must “have regard to the varied and specific contributions of each Member state of the commission to the total national production of oil and gas” (NDDC Act 2000). The commission has developed its own formula for the allocation of projects, with 60 percent of funds to be spent on the basis of oil production from each state.

#### **4.1. Outline of the Structure of the NDDC and its Mandate**

The NDDC is a corporate body with perpetual succession and a common seal; it may sue and be sued in its corporate name. The NDDC also contains of a governing board. The Chairman and members of the board are to be appointed by the President, subject to the confirmation of the Senate in consultation with the House of Representative. The members of the board shall be persons of proven integrity and ability. All the members of the governing board are full time members except the three members representing oil producing companies in the Niger Delta, the Federal Ministry of Finance and the Federal Ministry of Environment. A member of the board other than an ex-officio member shall hold office for a term of four years at first instance and may be reappointed for a further term of four years only once.

The office of the Chairman shall rotate amongst the member states of the Commission in alphabetical order. The members are also entitled to remuneration, allowances and expenses as the Federal government may, from time to time direct.

In its essential details, the Act demands the formulation of policies by the commission for the development of the Niger Delta area. The functions and powers of the commission are as set out in Section 7, Subsection (1) a – j, Subsection (2) and (3). Section 7 (1) stating, the Commission shall:

- a) Formulate policies and guidelines for the development of the Niger Delta area;
- b) Conceive, plan and implement regulations, projects and programme for sustainable development of the Niger Delta area in the field of transportation (including roads, jetties and water ways), health, education, employment, industrialisation, agriculture and fisheries, housing and urban development, water supply, electricity and telecommunications in accordance to the set rule
- c) Cause the Niger Delta area to be surveyed in order to ascertain which tasks are necessary to promote its physical and socio economic development;
- d) Prepare a master plan and schemes designated to promote the physical development of the Niger Delta area and the estimation of the cost of implementing such master plans and schemes;
- e) Implement all the measures approved for the development of Niger Delta area by the Federal Government and the member states of the Commission;

- f) Identify factors inhibiting the development of the Niger Delta and assist the member states in the formation and implementation of policies to ensure sound and efficient management of the resources of the Niger Delta;
- g) Access and report on any project funded or carried out in the Niger Delta area by oil and gas producing companies and any other company including non-governmental organisations and ensure that funds released for such projects are properly utilised;
- h) Tackle ecological and environmental problems that arise from the exploration of oil mineral in the Niger Delta area and advise the Federal Government and member states on the prevention and control of oil spillage, gas flaring and environmental pollution;
- i) Liaise with various oil mineral and gas prospecting and producing companies on all matters of pollution prevention and control.
- j) Execute other works and perform such other function, in the opinion of the Commission, are required for the sustainable development of the Niger Delta area and its people.
- k) In exercising its functions and powers under this Act, the commission shall have regard to the varied and specific contribution of each member state of the Commission to the total national production of oil and gas. The Commission shall direct, as well as control or supervise the performance of the President and “Commander in Chief” of the Armed forces of the Federal Republic of Nigeria.(NDDC Act 2000)

#### **4.2. Achievements of the NDDC**

The NDDC has recorded some progress in infrastructural development. Three hundred and fifty-eight projects have been completed across the region. These include forty major roads, forty-one landing jetties and ninety three water schemes. Also, eighty-one electricity projects and one hundred and ninety building construction works for schools and health centres have been completed. The breakdown of projects completed by state in 2003 was as follows: Abia 40, Akwa Ibom 53, Bayelsa 47, Cross River 4, Delta 97, Edo



38, Imo 31, Ondo 31, and Rivers 17 (African Network for Environment and Economic Justice (ANEEJ), 2006). The full list of the projects is presented in appendix 1 and 2.

Reports on NDDC activities in Bayelsa and Delta State have been commendable. For example, a report by the Isoko Progress Front North and South has got a sizable number of meaningful projects dotted in some of the major towns and villages in Isoko land. Over 90 percent of these projects have been commissioned and contractors have been paid. There have been three free medical health programmes in the Delta State; one was located in Oleh General Hospital while the others are in the Sapele and Patani local government areas. More than one thousand sick persons are reported to have been treated freely. Some Isoko primary and secondary schools were provided with 120 dual desks/benches, 7 teachers' tables and nine chairs each. The commission also made provision for training youths in computer literacy (ANEEJ, 2006).

In the case of Bayelsa state, Oloibiri, the legendary small community which hosted the first oil well in Nigeria, was lacking basic infrastructure for a long time. However, early in 2003, NDDC constructed and commissioned a 100000-gallon water project in the community and a landing jetty. These brought much relief to the community. In reaction to this development, the paramount ruler of the community, King J.C. Egha states: *“My council of chiefs and I as well as the entire people of my Kingdom want to use this medium to say a big thank you to the NDDC for making us to enjoy the benefits of oil exploration in our community for the first time. The NDDC has provided our community with a 100,000-gallon capacity water works and the largest jetty in Bayelsa state [...] NDDC has been able to partly wipe out the tears of our people occasioned by over 46 years of neglect by both the oil companies and successive intervention agencies set up to bring development to the Niger Delta Region(ANEEJ,2006).* In Kiagbodo in the Burutu Local Government Area, a borehole and a cottage hospital built by the NDDC are working properly. On the other hand, the Eastern bye-pass which the NDDC celebrates as one of its most laudable projects has been described by critics as being only a few kilometres of dual carriageway with poor finishing (Obibi and Ebiri 2003). It should be noted that road projects account for 46% of NDDC budget.

Members of the civil society also accord NDDC some pass mark. For example, Joseph Kariboro, Assistant National Secretary of South-South Peoples conference and Secretary

of the Rivers State Chapter says *“So far I would say that the NDDC as an interventionist agency has through its activities succeeded in penetrating the sub-consciousness of the people. There are some areas where you see jetties being constructed, hospitals and schools being built and water schemes too.”* (ANEEJ, 2006).

The NDDC also has stated its commitment to sustainable employment generation in the region. This followed criticisms of the employment impact of the numerous NDDC projects. The Commission has a schedule of programmes aimed at job creation and empowerment (see Appendix 3). Since most of these programmes are still in their infancy, it may be too early yet to assess their impact on employment and income generation in the region.

The NDDC model has been further adopted by Ondo State Government in its Ondo State Oil Producing Areas Development Commission (OSOPADEC) created in 2001 but became operational in 2002 (See box 1).

Still, youth restiveness persists; some critics feel the NDDC should do more. For example, the popular view at a recent Reference Workshop of Stakeholders on oil-producing community in Bayelsa State was that the NDDC did not have much impact on the development of the region. The commission is accused of not carrying the communities along in planning development projects, and thus there is a lack of project ownership. It is also accused of operating independently ignoring inputs from state governments by way of ideas. A case in point was that the state ministry of Health was not informed about a medical programme at a local hospital for people with eye problems, carried out by the commission with some experts. One finds, that the NDDC faces criticism from both the civil society for its lack of transparency and little collaboration with stakeholders in its operations. The NDDC maintains that it does not have the resources to do much. Some of the projects executed by NDDC are listed in appendix 1, 2 and 3.

The socio-economic profile of the Niger Delta seven years after the beginning of NDDC's operations indicates that not much has been achieved in this respect. Despite the huge financial resources that have been allocated to the NDDC and Niger Delta region, the people of the region are still very poor. As shown in Table 3 above, poverty level in the region was still quite high in 2004. Further, Table 7 shows that 61 percent and 41 percent of people in Bayelsa and Edo state were very poor respectively. Indeed, the report

concludes that only Imo state (Niger Delta state) is among the six richest states in Nigeria (NBS, 2004). The other richest states are Lagos, Oyo, Anambra, Osun and Benue, which are not oil producing states. Aboribo (2000) asserts that available statistic reveals that 72 percent of the household in the area are within the poverty brackets, thereby reducing the welfare of the inhabitants below the World Bank benchmark definition of poverty, this is indeed provocative a situation of lack in the means of plenty.

### **Box 1: Supplements on OSOPADEC and its Achievements**

#### **SUPPLEMENTS ON ONDO STATE OIL-PRODUCING AREAS DEVELOPMENT COMMISSION (OSOPADEC)**

Unlike most of the oil producing States, Ondo State did not benefit from the derivation fund until 1991 when a negligible derivation was paid to it from its on-shore Opuakaba and off-shore oil fields. Thereafter, attempts to infrastructural development of the oil producing communities by the Federal Government started with the establishment of the Oil Mineral Producing Areas Development Commission (OMPADEC). This period marked the official recognition of Ondo State as an oil producing State. A further step to ensure the development of oil producing communities was the establishment of the NDDC in 2000 with a special fund statutorily allocated to it by the Federal Government. The Commission has done a fairly good job in Ondo State without doubts. The foregoing are efforts of the Federal Government, which still are insufficient if considered the backdrop of the degradation and magnitude of resources required to lift the area from the doldrums.

The motive at the conception and foundation of the Ondo State Oil Producing Areas Development Commission (OSOPADEC) in 2001 was the determination of the Ondo State Government to plough back the benefits of the derivation fund to salvage the oil producing communities in the state.

#### **OSOPADEC: The Ondo State Initiative**

At creation, the Board of OSOPADEC, headed by the Governor, had a preponderance of the state Executive members as board members. This trend however was revisited by the present administration in 2003 whereby the law establishing the Commission was restructured in order to enable it to be more result-oriented. The chairman of the Commission is no longer the Governor of the State but an indigene of the oil producing area. In addition, the new OSOPADEC law has reengineered and repositioned the Commission for effective service delivery effectively. The functions of the Commission include the following:

- a) To receive and administer exclusively, 40% of the 13% oil derivation fund accruing to the Ondo State Government for:
- b) The rehabilitation and development of oil producing areas in the State: and
- c) Other development projects as determined by the Commission from time to time:
- d) To liaise with the relevant Federal Government and State Government authorities on the

control and effective methods of tackling the problems of coastal erosion, oil pollution and spillages in the State;

- e) To ensure fair and equitable distribution of development projects in the oil producing areas in the State;
- f) To ensure judicious utilization of the fund accruing to the commission and
- g) To execute other works or projects and perform such other functions which in the opinion of the Commission is geared towards the development of the oil producing areas of the State.

**OSOPADEC: Completed Projects**

- 426 NOS OF 3 Bedroom Housing Units in various communities in Ilaje Local Govt. (N933.729m)
- 380 number 4 Bedroom Housing Units in various communities in Iiaje and Ese-Odo Local Government Area (N364.42m)
- Wooden Footbridges and Jetties in 89 communities in Ilaje and Ese Odo Local Government Area covering 32km (N251.28m).
- Ten room apartment Teachers' Quarters (Composite) at Gbabijo (N18.5m)
- 14 six- classroom,1 five- classroom, 2 four- classroom and 5 three-classroom blocks in 22 communities in Ilaje and Ese-Odo Local Government Area.
  
- One 10 room apartment teachers' quarters, 5 six room apartment teachers' quarters and 2 four room apartment teachers' quarters (composite) inn 9 Communities (N92.07m)
- Six-room apartment teachers' quarters (Sandcrete) in three communities (N35.5m)
- One six- classroom, 10 three- classroom and 2 three-room Science block (all composite) in 13 communities in Ilaje and Ese Odo Local Governments (N91.13m)
- 11 six-classrooms and 6 three-classroom blocks (in various communities in Ilaje and Ese-Odo Local Governments (N150.27m).
- 2 concrete jetties at Igo, Agadagbaa Obon in Ilaje and Ese Odo Local Governments (N100.59m).Retaining wall at Ugbonla and Arogbo in Ilaje and Ese-Odo Local Governments (N48.37m) Governments (165.9m)
- 20 concrere jetties at Igbekebo and Awoye in Ese Odo and Ilaje Local Governments (N63.09m)
- Box culvert at Ibimare Kiribo (N3.3m)
- Township Roads in Ilaje Local Government (N208.09m)
- Financial assistance to students in tertiary institutions (a.k.a. OSOPADEC Scholarship Scheme (N95m)
- Health enhancement scheme (screening management and surgery on hypertension, hernia, hydrocelle and cataracts) (N37m)

- Education enhancement scheme (grants-in-aid to school and allied matters (N40m)
- Organisation of peace For a (N35m)
- Skill Acquisition and vocational training (N30m)
- 2 Health Centers with Doctors' and Nurses
- Quarters at Oba Rebiminu and Ziion-pepe (N33.91m)
- Electrification of Ugbonla community in Ilaje Local Government (N9.5m) 423. Geophysical survey carried out for boreholes at Ode-Ugbo, Obe Rebiminu, Molutehin, Asisa, Zion pepe and Ajapa (N5.2m)
- Cultivation of 50 hectares of land for swamp rice in location of Ilaje council

**OSOPADEC: On-going Projects**

- 17 nos OF 3 bedroom housing Unit in various communities in Ilaje Local Government (N15.34)
- One Health Center with Doctors and Nurses Quarters at Ori-Oke Iwamimo (N21.2m).
- Area office, Igbokoda (N23.98m)
- Police Station at Ode-Ugbo (N5.92m)
- Borehole Water Supply Scheme in Six communities in Ilaje and Ese Odo Local Governments (N189.7m)
- Supply and installation of 300KVA Generator at Ugbonla (N10.3m)
- Civic Center at Ilowo community (N18.9m)
- School Hall, Igbokoda (N15.5m)
- Makun-Alijere Aboto Road, phase I, in Ilaje Local Government (N478.44m) Upper Market Road, Igbokoda (N500m) (N24m)
- Igbokoda Ayeloro Road (N6.75b)
- Retaining wall at Ugbonla, Oke-Oluwa Zion, Ode Mahin and Arogbo (N81.37m)
- Governor's Office Annex (Composite) at Molutihin, Iiaje Local Government Area (N11.09m)
- Distribution of 27B outboard engines to Fishermen in Ilaje Local Government Area (N100m).
- Aqua-culture loan (N25m).

Source: Guardian, (Lagos) June 23, 2006 p.20

The poverty level is aggravated by high cost of living in the Niger Delta. Table 7 shows that per capita expenditure in rural area of Niger Delta is ₦42062 (US\$300), the composite per capital expenditure was ₦43827 (US\$313), the national average per capita expenditure composite and in rural area are ₦39155 (US\$280) and ₦34379 (US\$246) respectively.

Table 7 also indicates poor accessibility to pipe borne water. The average accessibility to pipe borne water in Niger Delta was 6.42%, while the national average was 13.56%. The accessibility to pipe borne water was 2.43% and 2.89% in Cross River and Delta state respectively. The poor accessibility to other social amenities is also replicated in electricity. The headquarters of Bayelsa state (Yenagoa) were not linked to the national power grid, (supplying electricity to other parts of the country) until October 2006.

**Table 7: Self Rated Poverty Incidence, Per Capita Expenditure and Accessibility to Pipe-borne Water in Niger Delta (2003-2004)**

State	Very poor	Per capita expenditure (Rural) (₦)	Per capita expenditure (Composite) (₦)	Accessibility to Pipe borne water (%)
Abia	36	47161	48770	3.38
Akwa ibom	15	40563	40612	7.37
Bayelsa	61	41541	42516	7.49
Cross river	25	41081	42526	2.43
Delta	26	35313	36050	2.89
Edo	41	30791	40402	9.70
Imo	28	64404	63341	6.15
Ondo	33	43973	43416	5.97
Rivers	17	33735	36809	12.42
Niger Delta	31	42062	43827	6.42
Nigeria	24	34379	39155	13.56

Source: Computed from National Bureau of Statistics (2005).

Similarly, Table 8 shows that level of inequality in the region, as measured by the Gini coefficient, is higher than the national average, next only to South West.

**Table 8: Income Inequality by Geopolitical Area (2004)**

<b>Geopolitical Area</b>	<b>Gini Coefficient</b>
<b>Nigeria</b>	0.4882
<b>North East</b>	0.4590
<b>North West</b>	0.3711
<b>North Central</b>	0.3934
<b>South East</b>	0.4494
<b>South West</b>	0.5538
<b>South South</b>	0.5072

Source: National Bureau of Statistics, 2005

Another disturbing issue in the Niger Delta is the environmental dislocation and degradation occasioned by oil exploitation and exploration activities in the Niger Delta which has a strong relationship with level of underdevelopment in the region. A degraded environment is inextricably linked with poverty and ill-health (Adeniyi, 2003). Land resource is exploited causing unemployment and underdevelopment. Water resources are being polluted, leading to damage of aquatic life, hampering the rich fishery business in the region as well as air pollution, causing health hazards, is pronounced in the region. The people suffer from the adverse consequences of environmental depletion. The environment depletion caused by oil exploration and exploration worsened the socio-economic problems in the region that have been aggravated by inadequate compensation paid for ecological damages and pollution. Inter and intra community conflicts are high, the conflict over limited available land is high. Amadi and Tamuno (2001) claim that the more of oil is exploited and taken away, the more devastation and misery are left behind for the people

of Niger Delta. Even worse, the little compensation paid to the region or community by oil operative firms is diverted for private use. This has stirred hostilities and crisis in the area also (Okojie and Ailemen, 2003).

The wanton loss of lives due to oil spills has attracted the anger of the youths in the region. For instance, Shell oil station located in the northern swamp field of the region was shut down for about 7 months by angry youths due to oil spillage that occurred in Battan, Ajuju, Ekemor Izon, New Ogbe Ijaw, Odidi, and Egwe communities.

The combinations of poor the health condition, the low level of education, unemployment, the degraded and polluted environment, a high level of poverty, high costs of living and low accessibility to social amenities may explain the high incidence of conflicts, hostage taking and restiveness in the Niger Delta.

Finally, as Table 9 is showing, the Niger Delta (South South zone) region performed worse than national average on virtually all indicators of welfare in 2006, seven years after the beginning of the NDDC operations. Unemployment is higher than all other zones between 6.6 and 16.4 percent; 18.5 percent of population have difficulties in meeting food needs, well above national average; 78.5 percent has access to water, 45.5 percent with access to safe water, and 44.6 percent has access to health services.



**Table 9: Nigerian Core Welfare Indicators by Zone (2006)**

		<b>Nigeria</b>	<b>North East</b>	<b>North West</b>	<b>North Central</b>	<b>South East</b>	<b>South West</b>	<b>South South</b>
<b>1.</b>	<b>Dependency ratio</b>	0.8	0.9	0.9	0.7	0.7	0.7	0.6
<b>2.</b>	<b>Economic conditions(cost of living,income earning opportunities,etc)</b>	31.5	19.1	18.1	34.7	56.4	32.2	34.5
	<b>Worse than a year ago</b>	38.9	61.1	60.6	32.3	19.2	29.9	28.6
	<b>Better than a year ago</b>							
<b>3.</b>	<b>Difficulty in satisfying household food needs</b>	13.9	12.5	9.5	7.2	25.4	13.0	18.5
<b>4.</b>	<b>Household infrastructure:</b>							
	<b>Secure housing tenure</b>	43.6	34.5	52.2	53.2	47.8	36.9	36.9
	<b>Access to water</b>	84.4	87.4	92.6	80.5	63.6	93.6	78.5
	<b>Safe water source</b>	50.9	30.3	50.2	48.5	40.3	73.1	45.5
	<b>Safe sanitation</b>	13.8	3.0	4.4	9.8	19.7	23.1	19.3
	<b>Improved waste disposal</b>	15.8	6.1	10.6	8.7	8.9	35.5	13.0
	<b>Electricity</b>	54.1	29.5	36.9	43.9	63.9	78.1	61.2
<b>5.</b>	<b>Employment Status (last 7 days):</b>							
	<b>Unemployed (youth, age 15 – 24)</b>	5.0	3.2	2.2	4.3	6.6	4.5	9.5
	<b>Unemployed (age 15 and above)</b>	3.8	2.8	1.4	3.5	5.2	4.1	6.6
	<b>Underemployed (age 15 and above)</b>	12.5	10.9	12.9	8.3	14.3	11.8	16.4
<b>6.</b>	<b>Education:</b>							
	<b>Adult literacy</b>	64.2	40.7	51.9	57.9	74.7	78.5	76.3
	<b>Youth literacy (15 – 24)</b>	76.5	49.7	57.5	74.8	91.9	94.7	87.9
	<b>Primary School:</b>							
	<b>Access to school</b>	74.6	70.2	74.7	78.8	59.8	87.5	70.3
	<b>Net enrolment</b>	62.4	44.6	43.5	73.3	82.4	82.9	77.3
	<b>Satisfaction</b>	58.0	36.8	57.8	50.1	64.9	76.6	54.3
	<b>Completion rate</b>	12.0	6.3	5.8	12.8	22.9	18.6	17.3
	<b>Secondary School:</b>							
	<b>Access to school</b>	46.3	35.3	42.5	46.8	31.9	68.6	47.1
	<b>Net enrolment</b>	45.9	26.3	25.8	46.4	59.9	65.2	58.9
	<b>Completion rate</b>	56.0	40.6	57.8	48.3	53.1	74.6	48.3
		20.0	7.0	7.2	15.8	27.9	39.4	25.5
<b>7.</b>	<b>Medical Services:</b>							
	<b>Health access</b>	54.1	47.3	54.2	60.1	36.4	72.3	44.6
	<b>Satisfaction</b>	66.9	62.6	62.5	66.9	64.8	81.5	57.8

Source: National Bureau of Statistics, Core Welfare Indicator Questionnaire Survey 2006, Abuja (September)

### **4.3. Funding as a Major Challenge of the NDDC**

The NDDC does not generate its income by commercial activities. Although it can invest, this is limited by availability of funds. Primarily, the NDDC spends the money it gets in the development and improvement of the Niger Delta communities. This means that such development will depend on the funds it gets as provided by the act establishing it.

The NDDC began operations early in 2001. The budget for 2001 submitted by President Obasanjo to the National Assembly in October proposed a 15.77 billion (US\$121million) allocation for its works. The NDDC proposed a budget of about 40 billion (US\$307 million) for development projects during 2002. By March 2002 only 17 billion (US\$130 million) have been approved by the National Assembly; 641 projects being announced spread across the nine states. These projects cover different sectors, including infrastructure, electrification, water supply, health, education, environmental protection, industrialization. The NDDC, together with the German Development Agency “Gesellschaft für Technische Zusammenarbeit (GTZ)”, developed a “master plan” for development in the Niger Delta region. The NDDC has taken over projects also that belonged to its predecessor, the Oil Mineral Areas Development Commission (OMPADEC), and initiated an “interim action plan for the projects.

The NDDC chairman, stated that out of the expected N 105 billion, the commission has only received about N60 billion. This leaves a shortfall of about N 45 billion (Gas and Oil, 2003). Oil companies are accused of not remitting the right amount of money to NDDC. In the year 2001, the approved budget for Shell Petroleum Development Company (SPDC) was US\$2.004 billion. It remitted only US\$380.074 million (1.30%). This was contrary to the stipulation in the NDDC act requesting it to remit three percent. Mobil’s approved budget was US\$1.029 billion, but it released only 2.55 percent (US\$26.631 million). Chevron’s approved budget was US\$1.100 billion and it gave US\$29 million (2.69 percent). Agip’s budget was US\$461.551 million but only remitted US\$11.173 million (2.41 percent). ELF/Texaco’s budget was US\$516.390 million but remitted US\$18.74 million. While Elf’s contribution amounted to 2.44 percent, that of Texaco was 1.19 percent (ANEEJ, 2006). ANEEJ (2006) noted that some oil companies are not complying with the provision of the NDDC Act. We have also noted that even the Federal Government is not fully complying with the provision of the Act. For example, an oil company, whose year 2002 budget was US\$2.235 billion, made a deduction of US\$627 million from its budget before its 3% was worked out. In June 2003 the oil companies contributed US\$25 million to NDDC, the Federal Government’s contribution was N20 billion and 10% instead of fifteen percent was paid.

#### **4.4. Other Challenges of the NDDC**

The NDDC has initiated a number of projects in the nine states of its operation that have had impacts directly on the life of people. These projects range from roads, jetties, water and electricity to facilities in education and health sectors, as shown in Appendix 1 and 2. Reports on the projects have not been complimentary at all. In the case of Akwa Ibom State, the NDDC projects are handled by contractors nominated by the state government; hence, they may be subjected to abuse of political patronage. Also, there is “massive project abandonment” in the state (ANEEJ, 2006). In fact, most of the appointments to NDDC are closely tied to the government in power and the consequence on job performance and delivery can be imagined best as “who pays the piper calls the tune”. Another slag in the operation of the NDDC is the fact that there is lack of participatory approach to project execution. The intended beneficiaries of the projects were not carried along in project planning and execution. This particularly will affect the sustainability of the project directly or indirectly.

Another critical issue needing to be addressed in the work of the NDDC would be the existence of corruption. Although there has not being given evidence of large scale corruption in NDDC, it can not be ruled out completely, considering the experience from past development initiatives in Niger Delta. For instance, in February 1996, the senior management of OMPADEC was fired amid allegations of corruption and mismanagement (Aigbokhan et al, 2004). The government inaugurated the board of Petroleum Special Trust Fund (PSTF) in March 1995, established by decree the previous November 1994, with a mandate to use revenue from increases in the price of petroleum products to “identify key projects in all parts of the federation so as to bring about equitable development to all our communities.” The Petroleum Special Trust Fund was accused of corruption to the sum of more than N21 billion (US\$ 1.6 billion) by international assessments (Human Rights Watch, 1999). The NDDC operates in a very harsh and difficult terrain; the cost of project execution is enormous. The aquatic terrain of the Niger Delta region makes it difficult for NDDC to get to certain areas of the communities.

## **5. Efforts to Ensuring Transparency in the Management of Oil Revenues in the Niger Delta Region**

### **5.1. The Publish What You Pay Campaign (PWYP)**

The pace of development in the Niger Delta region is not commensurate to the amount of resources flowing into the region. The African Network for Environment and Economic Justice (ANE EJ) has pioneered the process of mobilizing the citizenry in the Niger Delta to demand transparency and accountability from the federal government of Nigeria and the respective governments of the Niger Delta states. One of the most decisive and powerful movements of the civil society for transparency and accountability in public governance in Nigeria in the last two years has been the Publish What You Pay (PWYP) campaign in Nigeria. The campaign coalition is part of an international network of organizations, calling for the mandatory disclosure of the payments made by the oil/gas and mining companies to governments, and for governments to publicly reveal its revenues from these sectors to enable citizens hold government officials and politicians accountable for the management of the funds flowing from extractive industries.

George Soros, Chairman of the Open Society Institute, launched the Publish What You Pay campaign in June 2002. Other NGOs, like the Catholic Relief Services, Pax Christi Netherlands and Secours Catholique/CARITAS France, along with an increasing number of groups from developing countries, joined the Publish What You Pay coalition campaign soon. The PWYP coalition has been growing extensively since the campaign's launch and continues to expand worldwide.

The Nigerian version of the PWYP coalition campaign was launched on 17<sup>th</sup> February, 2004 in Port Harcourt. The coalition, including over 90 civil society organizations, drawn from the six geopolitical regions of Nigeria, has its national secretariat hosted by ANEEJ. Some of the civil society organizations involved in the campaign are the Movement for the Survival of Ogoni People (MOSOP), the Budget Transparency Network, the Niger Delta Budget Monitoring and Transparency Network, the Zero Corruption Coalition, working for the enactment of the Whistle Blowers Protection Act, and the Freedom of Information Coalition calling for the enactment of the Freedom of Information Act. With the very disappointing history of public expenditure management in Nigeria, PWYP Nigeria believes that it is not enough to have the government and the extractive industries report their earnings, stolen funds should be found wherever hidden, confiscated and repatriated back to Nigeria or to the appropriate country of origin.

## **5.2. The Nigeria Extractive Industry Transparency Initiative (NEITI)**

The federal government of Nigeria was among the first governments in the world to accept and commit to the Extractive Industry Transparency Initiative (EITI). EITI was launched by the British Prime Minister, Tony Blair, in September 2002 at the World Summit of Sustainable Development in Johannesburg. The initiative was designed to encourage governments and extractive companies, international agencies, NGOs and others with an interest in the sector, working together to develop a framework to promote transparency of payments and revenue (Okogu, 2005).

The Nigeria Extractive Industries Transparency Initiative (NEITI) which is a subset of a global initiative aimed at following due process and achieving transparency in payment by extractive industries to governments and government-linked entities was launched by President Olusegun Obasanjo in February 2004.

The NEITI is operating on the platform of the National Stakeholders Working Group (NSWG), which comprises representatives from the civil societies, government, media, indigenous and multinational companies, organized private sectors as well as the State and National Houses of Assembly. The NEITI bill which will institutionalize the commitment to transparency and bring into being a law that will provide the legal backing for the collection and publication of oil and gas revenue information for permanent and better oversight of the extractive sector of the economy is presently before the National Assembly. The bill which originated from the NSWG was introduced to the National Assembly in December 2004 by the presidency. Another laudable achievement of the NSWG is that the platform contracted the Hart Group, a United Kingdom audit firm to audit payment made by the extractive industries to the government from 1999 to 2006. These Audits will be done annually and disclosures and publication of payments and receipts of revenues are compulsory. It is the conviction of NEITI and NSWG that disclosures and publications would enable Nigerians hold their governments to account over the management of their resources, and ensure that the questions are transparently answered (Ugolor, 2005). These initiatives, coupled with the watchdog activities of the Economic and Financial Crimes Commission (EFCC), promise to bring an improvement in the activities of NDDC by leading to more judicious utilization of funds derived from and allocated for use in the Niger Delta.

## 6. Conclusion and Recommendations

The NDDC was established in response to agitations from residents of the Niger Delta region for greater control over oil resources in the region. Thus, following the decades of environmental degradation and loss of economic opportunities due to the activities of oil companies in the region. The NDDC was established on the lessons learned due to failures of earlier similar initiatives. It was expected that the NDDC would make more positive impact from a vantage point of having earlier failures to learn from. However, seven years after its establishment, the NDDC seems to have had little positive impacts on the region. Poverty and unemployment levels continued to deteriorate, access to social infrastructure remains low, and youth restiveness and violence are increasing. Thus, the NDDC could not be said to have been an effective instrument of reconstructing economic governance in the region. Much of the failure has been due to structural defects in the operations of the commission and the general low level of transparency in government transactions in Nigeria.

In order to be more effective in economic management and reconstruction of the Niger Delta, the NDDC should aim at the following long-term outcome goals:

1. *Institutionalisation*: develop local capacity, establish structures that will perpetuate and deepen the work
2. *Reverberation*: influence specific micro-level interventions so that they reverberate to the society at large
3. *Demonstration*: establish credible and replicable models for addressing ethnic tensions.

In order to implement there will be a need for:

- (a) *Assessments*: Identification of issues and projects at stake
- (b) *Dialogue*: Meaningful, regular, sustainable and consistent discussion among the stakeholders in oil resources in Niger Delta
- (c) *Confidence Building*: Build mutual trust and understanding among the people. This can be enhanced by their effective performance and project execution,
- (d) *Empowering*: There should be a reorganisation of the power and functions to achieve creative and peaceful change. NDDC should not be a place to breed indolence, they have a mandate to change Niger Delta for better pragmatically
- (e) *Partnering*: Cooperation with other programmes of the government. They should be looking for opportunities to cooperate with organisations that have intentions to develop the Niger Delta

- (f) *Engaging*: Involving disputants, traditional rulers, religious bodies and opinion leaders to engage in creative conflict and crisis management
- (g) *Catalysing*: Initiating concrete collaborative project between disputing parties, where they will see themselves as partners in progress
- (h) *Evaluation*: Development of credible and useful methods for evaluating interventions and projects, and
- (i) *Transparency*: The NDDC should strive to achieve greater transparency in its operations.

The funding level of NDDC would need to be improved. This requires that both the federal and state governments and oil companies fulfil their statutory financial obligations to the commission as agreed as well on time. Further, the oil-producing state houses of assembly should legislate to set up Oil Derivation Fund Management Committees (ODFMC) which should include all persons and organizations with proven integrity that have stakes in oil resources. They should determine projects to be executed as well as award and execute contracts.

The house of assembly in oil-producing states should make laws that will compel state governors to publish monthly how much money they get as the 13 percent derivation fund from the federation account and authorize them to hand over such fund to ODFMC that would be set up as recommended. State governments in the Niger Delta Region should publish what they receive as oil revenue, how they spend it and the projects on which they spend it. Independent auditors should be engaged by the various state governments with responsibilities to carry out the proper auditing of all the state's oil revenues and expenditures. The auditors' reports should thereafter be published for the information of the public.

State governments should establish a development commission for their oil-producing areas, modelled after the Ondo State Oil Producing Area Development Commission (OSOPADEC), so as to enable citizens of the areas to contribute their inputs into the disbursement of all oil revenue. The civil society and community-based organisations should develop their capacities to play their expected oversight role of monitoring oil revenue flows to the region as well as to undertake oil contract watching. This would promote further transparency in fund utilization and enhance value for money service deliveries.

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## Appendix 1: NDDC Road Projects

1. Construction of bridge Okon, Ikot. Abasi Local Government Area (L.G.A), Akwa Ibom State
2. Gully erosion control Ukpa-Ndom Utim, Etinan L.G.A, Akwa Ibom State
3. Road rehabilitation project Nung Oku Ikot Udo Essay Qua Iboe River. Onna L.G.A., Akwa Ibom State
4. Construction of Akpatek-Ikwe/Odia Onna LGA, Akwa Ibom State
5. Kalama-Sabagriea-Polaku Road, Kalama-Sabagriea-Polaku, Sagbama L.G.A., Bayelsa State
6. Tungho-Bulo Orua-Auglabiri Road Tungho, Sagbama L.G.A., Bayelsa State
7. Otuake Onuebum Road Otuake Onuebiem, Ogbia L.G.A Bayelsa State
8. Construction of new airport/Abitu Street Ibesikpo. Calabar South, Cross River State
9. Oiri-Olomu junction to Egodor Road with bridge and spur link to Bikorogba Burutu L.G.A, Delta State
10. Ibrede Iguku Road Ibrede Igbuku, Ndokwa East L.G.A, Delta State
11. Uti Rad Effurun, Uiwie, Delta State
12. Oleh junction I Olomomu Road Oleh/ Olomoro, Isoko South L.G.A., Delta State
13. Ejenesa Irhodo Ugbonaja, Ethiope West L.G.A. Delta State
14. Road network at Delta State University Abraka, Ethiope West L.G.A., Delta State
15. Construction of Oki Street & Drainage Warri, Warri South L.G.A., Delta State
16. Aloba Bikorogba Egodor Ogbodobiri Road/Bridges Ughelli North/South, Burutu L.G.A. Delta State
17. Iselegu Utagbo Uno Obiaruku Road various, Ndokwa East L.G.A., Delta State
18. Edherie Abe Road Edherie Ase, Ndokwa East L.G.A. Delta State
19. Aja-Etie Akpoaloka various, Warri North L.G.A., Delta State
20. Ugbelli-Ogumene-Okpe Olomu-Ovwodokpo Road various, Delta State
21. Construction of Ewu-Orere Road various, Ughelli South L.G.A. Delta.
22. Mosopar/Apobome Township Road Mosogar, Ethiope West L.G.A., Delta
23. Unenurhie Ewreni Radial Road Unenurhie Ewreni, Ughelli North L.G.A., Delta State
24. Rehabilitation of East/West Ewu Road Ughelli South L.G.A., Delta State
25. Grading of Obozogbe, Sakponba Abeighomokhua Obozoghe, L.G.A. Edo State
26. Okwuosa-aueshi Road Project Oguta L.G.A., Imo State
27. Construction of Ring Road and Drainage Mmahu, Ohaji/Egbema L.G.A, Imo State
28. Rumuolumeni Ogbogoro Road Rumudumeni, Obio/Akpor L.G.A, Rivers State
29. Construction of Obite-Ede Bye-Pass Obite, Onelga L.G.A, Rivers State
30. Construction of Eleme Ring Road Eleme, Eleme L.G.A, Rivers State
31. Eastern Bye-Pass Road Port Harcourt, Rivers State
32. Ogingba Woje Elenlenwo Road Elenlenwo, Obia-Akpo L.G.A , Rivers State
33. Completion of Elele Rumuokpe Ogbele Road Elele, Ikwerre L.G.A, Rivers State
34. Bridge/Drainage/baa, Emoha L.G.A, Rivers State
35. Okogbe Ogbologbo Ochida Road Ahoada West L.G.A, Rivers State
36. Construction of Ikom/National Street Mile 3 Port Harcourt, Obiaakpo L.G.A, Rivers State
37. Elenlewo Akpajo Road Elenlenwo, Obio-Appo LGA, Rivers State
38. UST Abuja GRA phase 3 Port Harcourt, Rivers State
39. Construction of Ula-Ehuda-Odiaku-Odiereke Road Odioku-Odirake, Ahoada West L.G.A, Rivers State
40. Construction of Rural and Estate Road using Zenith Road Zynie, Port Harcourt Obia-apkpo L.G.A Rivers State

## Appendix 2: NDDC Landing Jetty Projects

1. Rehabilitation of old landing jetty, Twon Brass, Bayelsa State
2. Remedial works at Igbedi-Jetty, Igbedi, Kolo/Opokuma, Bayelsa State
3. Completion of Osalama jetty, Ossiam, Southern Ijaw, Bayelsa State
4. Yenagoa Ramp/Jetty, Yenagoa, Bayelsa State
5. Jetty Project, Ukparatubu, southern Ijaw, Bayelsa State
6. Jetty Project, Ologi, Ogbia, Bayelsa State
7. Okoloba jetty, Okolaba, Kolo/Opokuma, Bayelsa State
8. Construction of concrete jetty. Aleibiri, Ekoremor, Bayelsa State
9. REMEDIAL works at Kabeama, Sagbama, Bayelsa State
10. Opokuma jetty, Opokuma, Kolo/Opokuma, Bayelsa State
11. Jetty Project, Egbabele, Brass, Bayelsa State
12. Consruction of Jetty, Oboibiri, Obbia, Bayelsa State
13. Concrete landing Jetty, Ikang waterfront, Akpobuyo, Akpabuyo L.G.A., CRS
14. Concrete landind Jetty, Ikang waterfront, Akpabuyo L.G.A, Cross Rivers State
15. Concrete landing Jetty Creek Town, Odukpani L.G.A, Cross Rivers State
16. Kenghagbene Jetty, Ugbogodu, Warri North, L.G.A, Delta State
17. Oboro Jetty, Oboro Burutu, Delta State
18. Ugbogbodu Jetty, Ugboritsediwa, Warri North, L.G.A, Delta State
19. Okerenkoro Jetty, Okerenkoko, Warri South West, L.G.A, Delta State
20. Ogboritseduwa Jetty, Ogboritsediwa, Warri South West L.G.A, Delta State
21. Ijasan Jetty, Ijasan, Warri South West L.G.A, Delta State
22. Ode Itsekiri Jetty, Ode Itsekiri, Warri South L.G.A, Delta State
23. Ogbobagbene Jetty, Ekeremor Zion Warri South L.G.A, Delta State
24. Ekeremon Zion Jetty, Daleketa, Warri North L.G.A, Delta State
25. Deleketa Jetty, Daleketa, Warri South L.G.A, Delta State
26. Ogbe Ijaw water Jetty, Ogbe Ijaw, Warri North L.G.A, Delta State
27. Forcados Hospital Jetty, Forcados, Burutu, Delta State
28. Obaghorro Jetty, obaghorro, Warri North L.G.A, Delta State
29. Koko Jetty, Koko, Warri North L.G.A., Delta State
30. Agoloma Jetty, Agoloma, Bomadi, Delta State
31. Ajoki Jetty, Ajoki Warri North L.G.A, Delta State
32. Completion of concrete Jetty, Agerige, Ilaje, L.G.A, Ondo State
33. Concrete landing Jetty, Ugbonia Ilaje L.G.A Ondo State
34. Concrete landing Jetty Aiyetoro, Ilaje, L.G.A Ondo State
35. Wooden foot Bridge Ajegunle, Ilaje L.G.A, Ondo State
36. Concrete landing Jetty, arogbo Ese-Odo L.G.A, Ondo State
37. Concrete Jetty Ori-Oke/Iwamimo Ilaje L.G.A, Ondo State
38. Concrete landing Jetty Ode-Ugbo, Ilaje L.G.A, Ondo State
39. Completion of concrete Jetty Igbokoda, Ilaje L.G.A, Ondo State

Note: Additional projects have been undertaken since this list was compiled. E.g. the following projects were undertaken in Bayelsa State:

Jetties	22
Roads	15
Shore protection	6
Electrification	5
Water	23
Classroom buildings	63

Source: The Guardian (Lagos) October 15, 2006 p. 17.

### Appendix 3 - NDDC Employment Generation and Empowerment Programmes

S/No.	Activity (Projects)	Location (Where it will be implemented)	Status	Deliverables (Desired Impact)
<b>1 EMPLOYMENT GENERATING ACTIVITIES</b>				
	Agriculture			
	<u>Cassava Programme</u> a) Macro Component 1,500ha of land is being cultivated as Pilot Farms b) Micro Component NDDC would assist Cooperative Societies, Communities, Corporate bodies and Farmers to cultivate at least 10ha each c) Cassava Processing Plants NDDC shall set up processing plants in strategic locations in the Region	In all the 9 States of the Niger Delta Region (NDR)  In all the 9 States of the NDR  In Strategic Cassava belts	Commenced June 2005 – Ongoing  Ongoing	<ul style="list-style-type: none"> <li>* Employment opportunities for over 5,000 families</li> <li>* Demonstration, Training Centres &amp; Supply of improved Cassava cuttings to farmers in the Region</li> <li>* An average of 100,000 tons of raw cassava per year</li> <li>* Availability of raw materials for production of value added products like cassava flour, modified starch, cassava starch, ethanol etc.</li> </ul>
	<u>Rice Programme</u> a) Establishment of 100ha of Rice Farm in each state of the NDR b) Provision of Rice Mills in strategic locations in the NDR c) Provision of Extension Services & Agric Inputs/Credits for Rice Farms d) Rehabilitation of Peremabiri Rice project in collaboration with FGN and Bayelsa State Government	In the 9 States of the NDR In the 9 States of the NDR In the 9 States of the NDR Peremabiri, Bayelsa State	Ongoing  Ongoing	<ul style="list-style-type: none"> <li>* Availability of 100,000 metric tons of rice per State</li> <li>* Availability of Rice Chaff for Animal Feed production</li> <li>* Employment opportunities for at least 3,000 farm families and 1,000 workers at the Rice mills</li> <li>* Availability of selling points for Rice by Small Rice Farmers</li> </ul>
	<u>Mushroom Farming</u>  Establishment of Pilot Mushroom Farm in each State of the NDR	In the 9 States of the NDR	Commenced in Sept. 2005 - on-going	<ul style="list-style-type: none"> <li>* Introduction of Mushroom production/processing technology in the NDR</li> <li>* Can create over 13,500 jobs</li> <li>* Availability of Oyster Mushroom in major markets in the Region and produce enough</li> </ul>

				for export
	<u>Vegetable Production Programme</u> A portion of the Macro Cassava Farms shall be dedicated to Vegetable cultivation. Dry season vegetable farming practice shall also be encouraged	In all Macro Cassava Farms in the Region	To start in October 2006	<ul style="list-style-type: none"> <li>* Cultivation of Vegetable all year round</li> <li>* Discourage the importation of vegetables</li> <li>* Create employment and improved income for at least 5,000 Farm Families</li> </ul>
	<u>Plantain/Banana Programme</u> To support Farmers with improved planting materials and other inputs and plant 100ha of plantain & banana in each state	In the 9 States of the NDR	To start in September, 2006	<ul style="list-style-type: none"> <li>* Availability of plantain/Banana at affordable price in the NDR</li> <li>* Availability of raw material for other value added products like wine, chips etc.</li> <li>* Shall generate jobs for at least 1000 Farm Families</li> </ul>
	<u>Livestock Development Programme</u> Rehabilitation of at least one feed mill in each State of the NDR Establishment of breeder Farms/Hatcheries for provision of day old chicks in the States of the NDR	In the 9 States of the NDR  In the 9 States of the NDR	To start in September, 2006	<ul style="list-style-type: none"> <li>* Employment/Income generation for at least 9000 persons in the NDR</li> <li>* Boosting poultry and other livestock production</li> </ul>
	<u>Fisheries Development Programme</u> Establishment of modern Aquaculture fish farms as pilots Support of Smallholder/Homestead fish farmers through agric credits and inputs  Provision of essential fishing inputs for fisherfolks in the NDR  Installation of fish-processing facilities in strategic areas in the coastal states Encouragement of private entrepreneurship in fish trawling to explore the rich fishing and shrimping grounds of the	Bayelsa, Cross River, Delta, Rivers, Ondo & Akwa Ibon States Bayelsa, Cross River, Delta, Rivers, Ondo & Akwa Ibom States Bayelsa, Cross River, Delta, Rivers, Ondo & Akwa Ibom States Bayelsa, Cross River, Delta, Rivers, Ondo & Akwa Ibom States In the NDR	Ongoing  Ongoing  To start September, 2006 Ongoing  Ongoing	<ul style="list-style-type: none"> <li>* Employment/Income generation for over 1,000 fishfolks in the region</li> <li>* Increase catch by more than 5%</li> <li>* Additional approx. 2m tons of fish to be produced annually</li> <li>* Creation of job opportunities for more than 1000 fish processors</li> </ul>

	country's continental waters			
	<i>Sports Development</i> Regional Football intercommunal league  Weightlifting	In the 9 States of the NDR In Akwa Ibom State	Commenced February 2006 Ongoing	* Provide the youths with productive avenues of expressing their energies  * To create employment/income generation for the youths and women
<b>2 SKILLS ACQUISITION</b>				
	<i>Massive targeted Skills Acquisition/Capacity Building Programmes</i> in the areas of: 1. Skills Acquisition Programme - Mechanical Business Skills - Building Business Skills - Home Management Business Skills - Health/Transport Biz/Skills 2. Computer Training 3. Agric Support programme	In the 9 States of the NDR  In the 9 States of the NDR In the 9 States of the NDR	Commenced Jan. 2005 – Ongoing  Commenced in 2003 – Ongoing	* To create a pool of over 20,000 employable youths & women in the Region that would be engaged in Agric, Oil & Gas and other sectors of the Economy
<b>3 EMPOWERMENT</b>				
	<i>Transit Buses/Boats</i> Distributed about 900 Buses to Cooperatives within the Region on Hire-purchase basis Distribution of Boats ongoing for the Riverine areas	In the 9 States of the NDR	Commenced in 2004 – Ongoing	* Empowered over 8000 people since each cooperative has a minimum of 9 members each  * Has eased transportation within the Region and has stabilized the cost of Transportation
	<i>NDDC/Globacom Self Employment Business Scheme (Phase 1)</i> 4,000 lines/handsets and accessories were distributed free of charge to youths within	In the 9 States of the NDR	Commenced August	* Empowered 4,000 youths in the Region to carry out Business centres

	the Region to boost Telecommunication in rural areas and to empower the youths		2005 – on-going	* To support rural telephony
	<u><i>Agric Credit Scheme</i></u> Provision of Micro-Credit to Farmers Capacity building for Youths, Women and other interested selected individuals in acts of cultivation of special crops, livestock & Fish farming	In the 9 States of the NDR In the 9 States of the NDR	Ongoing	* Would empower over 40,000 Stakeholders to establish various Agric endeavours for self reliance * Empowerment/establishment of about 20,000 persons per annum in various agric endeavours
<b>4 ROAD AHEAD/MAP IN LINE WITH THE NIGER DELTA REGIONAL DEVELOPMENT MASTER PLAN (NDRDMP)</b>				
	Establishment and funding of a Regional Business Development Service (RBDS), with a Regional Enterprise Development Fund (REDFUND) to provide Business support and Micro-Finance within the Niger Delta Region (NDR) (NDDC to lead the initiative)	A Business Development Centre (BDC) in each of the Senatorial Districts of the NDR	September 2006 – August 2007	* To create over 500 new businesses each year within the Region and over 10,000 jobs

Source: Edem (2006)





## **Natural Resources and Good Governance in Nigeria**

### **Case study: Local Communities in the Niger Delta**

Ignatius Adeb

#### **Abstract**

*Nine states out the thirty-six states of Nigeria make up Niger Delta with a population estimated at over 20 million. Nigeria, a mono-product economy derives over 95% of its foreign exchange earnings from exploration of oil in the Niger Delta. Nevertheless, it scores over 70% of poverty incidence in general and particularly in the Niger delta over 80%. Beside other sources of revenue the states receive the biggest share of the revenue from the federation account based on the 13% derivation principle. Despite this enormous increase in revenue the poor have no access to basic necessities of life like portable water or other sanitation facilities. The deliberate pollution of the Niger Delta environment (land, air, sea, river, ponds and wells) by oil production companies acting in concert with politicians, local chiefs and community leaders is therefore worrying.*

*What is accountable for this state of affairs? This paper focuses on the role of governance, multi-national companies (MNCs), local politicians, community leaders and public officials in the management of these resources and discovers that the problem may not lie on marginalization or neglect or inadequacy of funds as some allege but on mismanagement and corruption of, which blame is no longer limited to politicians and public officials per se but also influential local leaders of diverse ethnic groups who jostles for a piece of the patty.*

*A major cause of corruption relating to the distribution of property rights in resources will be addressed as a further potentially powerful explanation that has rarely been considered in the relevant literature. If corruption means that public resources are “sold” for private money it may be of consequence whether the resource (minerals in our case) is allocated to the state or to local communities. If the resource, or a share in it, was in some way given the local communities the responsible personnel would more closely be controlled by his or her citizenry, and he or she would develop an ethics of collective responsibility. However, if the resource is owned by the state (as is the case in Nigeria – by virtue of the 1978 Land Use Act) it loses its substantial link with concrete citizens. It becomes an abstract asset of the state machinery and is therefore rendered at the disposal of the given power structure. Responsible administration of the resources or the proceeds that flow from it would in this case depend on whether the power structure is democratic and responsive, or else autocratic and selfish. Analysis and recommendation will focus on the failure of traditional anti corruption measures and recom-*

*mend streamlining administrative intervention competences, the fettering of discretion, open access to information, disciplinary proceedings, fair remuneration, protection of whistle-blowers, and criminal sanctions; ways and means of embettering them will be discussed. Of even more interest will be more modern and innovative tools, such as, local initiatives aimed at checkmating the situation along with life style approach, plea-bargaining in the prosecution of corruption, the massive dismissal of police officers, public prosecutors and even judges, access to information, strengthening whistle blowers protection, due process policy and Nigerian Extractive Industries Transparency Initiative (NEITI). Expert interviews and other secondary sources such as magazines, newspaper reports, journal articles etc are the methods used in collecting data that were empirically analysed.*

## **1. Introduction**

The Niger Delta (ND) is endowed with varying patterns of seasonal flooding: coastal barrier islands, mangroves, freshwater swamp forest and low land air forests (Omorogbe in Zillman et al, 2002). With a population estimated at over 20 million (Amako, 2003), the majority of people live in rural communities and settlements. As a response to family subsistence and economic enhancement they depend largely on self-employment through fishing from nearby sea, rivers, wells and ponds. These means of subsistence are now virtually out of use as a result of the threat from pollution orchestrated by oil industries. Thus, the importance of exercising some degree of communal control over these resources or substantial portion of the proceeds cannot therefore be an over statement.

Recent revelations have shown that environmental pollution is not the only cause of lack of development but also the problem of lack of good governance which for this study means respect for legal order and communal access to resources. In fact, the single most important element why development has over the years eluded local communities in the Niger Delta has been the inability to fight corruption in the region. Government revenue from oil has accelerated from N66 million and N10 billion in 1970 and 1980 respectively to over \$400 billion in today's income of which over 100 billion dollars have simply gone missing since the 70s (Watts, 2006; Ribadu, 2005). For the sake of this study corruption which means the selling of public resources to satisfy personal interest, is relevant as a factor of failed efforts at improving the situation and is therefore given priority while other factors are referred to only to the extent that they influence and buttress the role of corruption in the developmental process of local communities.

### **1.1. Aim of the Study**

This study is geared towards assessing the role of good governance in community development focusing on Nigeria's Niger Delta primarily because Nigeria is a country where both abundant wealth from natural resources and immense developmental problems are widely known to co-exist. After so many years of failed attempts at embettering the developmental variable, the need has come for a change of perspective. Earlier studies have for decades, either given a more generalised view of abatement techniques of corruption that do not seem to yield the desired result. This study focuses on the basic cause of corruption in the Niger Delta and reveals that the first step towards a lasting good governance, economic and political freedom for the local communities in the Niger Delta is to review all unjust laws that deny the communities of their rights to mineral resources or the proceeds thereof and went on to argue that the making of good laws, rules and regulations coupled with strengthened and effective institutional frameworks are basic panaceas that will reduce misuse of public funds and abuse of office and provoke true communal development.

This study employs empirical research methods, which shall provide empirical basis for more theoretical and comparative reflections. Why have the instruments commonly used for improving the situation failed? Have they not again and again attempted to employ the most effective instruments ranging from more traditional regulatory tools to modern economic incentives? The working hypothesis of this study is that while it is commonly assumed that these instruments are put into action at face value their success is in fact heavily dependent on whether they are used in a corrupt manner or not. It is true; there is a plethora of literatures and studies on corruption just as there are voluminous works and studies on environmental degradation and developmental neglect. Despite this rich body of knowledge and information and dramatic increase in the resources that have been channelled to the region over the years the question is rarely posed: what role corruption plays in governments' inability to reverse environmental decline, the grinding poverty in the local communities, and why even existing anti-corruption frameworks have failed to guard against fiscal impropriety in the management of public funds in the Niger Delta in particular and Nigeria in general.

Media reports, articles and opinions often link the conflict in the Niger Delta to absolute developmental neglect and the increasing environmental deterioration. As Edwin Clark mentioned in an interview with Tunde (2006) "but if they have no jobs, no food to eat, they become restive and dangerous." Failure of earlier attempts to arrest the situation has left the population of over 20 million desolate and a nation in desperate search for other alternatives to combat the rapidly declining economic and environmental standards in the Niger Delta.

Past study of major oil spill reveals contamination of groundwater from hydrocarbon spill and also that extensive environmental degradation existed eighteen months after the incident (Ikein, 1991). The only positive thing that came out of Koko toxic dump incident of 1988 was the enactment of new environmental law and institutional framework like FEPA (Federal Environmental Protection Agency; now Ministry of Environment). Besides, Nigeria has virtually learnt nothing from the incident since no significant progress has been made ever since. For instance, interview conducted by some environmental NGOs (Non-Governmental Organizations), Daniel Akpere a resident claimed: *"As you have come here, we can not give you our water to drink; if we give you we are poisoning you."*

## **1.2. Methods and Sources of Data**

### **1.2.1. Multi Stage Stratified Sampling System, Expert Interview, Observation and Journals**

- a) Stage I: First visit to some communities and interviews conducted with community members (Elders, women and youths)
- b) Stage II: Interview with public officials, some MNC employees and contractors both in the region and Abuja
- c) Stage III: Visit to sites for observations

The following communities from 7 coastal states of the ND were visited:

- |   |                 |   |
|---|-----------------|---|
| 1 | Akwa Ibom State | Mkpanak, Iwokpom and Ukperekanny communities  |
| 2 | Bayelsa State   | Emeyal 1 community and Tungbo community       |
| 3 | Cross River     | Henshaw Town Beach I, II, III communities     |
| 4 | Delta State     | Cable point community and Oko communities     |
| 5 | Edo State       | Ologbo and Ekewan communities                 |
| 6 | Ondo State      | Okitipupa, Ile Oluji and Aiyetoro communities |
| 7 | Rivers State    | Njemanze, Waterfront and Mile one communities |

### **1.2.2. Extensive Pollution of Water Sources and Absence of Sanitation Facilities**

The majority of the inhabitants in these communities are poor. They can barely eke out a living. All the communities visited have similar challenges of lack of jobs, absence of portable water and sanitation facilities coupled with low standard of living. For instance, data show that access to clean and portable water depends on ones financial ability and income. Generally, those that are financially capable often move from more polluted areas to less polluted areas within or without the state. Hence, most of the policy makers and fairly 'well-offs' from

this region live in major cities around the country. So, the poor majority of the people living in this region are exposed to deteriorating physical and health conditions resulting from their dependence on polluted soil for farming and water for their daily activities (Int. Nr. ND 006). As a test case when the author demanded to use a toilet, he was shown the shackles in Figure2 below which are meant for the grown-ups while children use the open fields. The night soil from both places finds their way into the river as in Figure1 and Figure2.

**Figure 1: A River contaminated by Oil Sludge**



Source: Author

**Figure 2: Dilapidated toilets made from shacks situated at the edge of a communal river**



Source: Author

**Figure 3: Water from the river being put to economic use by residents**



The Figures 1 and 2 respectively show contaminated river from oil sludge with makeshift toilets and the water from the river being put to use in fig 3. In the Niger Delta where waste dumps from drilling sites; radioactive materials and oil sludge are recklessly dumped into rivers and lakes, the result is that those who rely on these natural resources for survival are not only exposed to the harmful consequences posed by such pollution but also lose their jobs if they can neither fish nor farm.

### **1.3. Lack of Development, Loss of Jobs and Risk to Human Health**

Away from the main towns there are no real development, no roads, no electricity, no running water and no telephones with most people struggling to survive on less than \$1 dollar a day (Whittington, 2001). Rather than oil adding to the standard of living of the people it may have in fact, contributed to its decline (Martin and Subramanian, 2003). Hitherto, the people rely on self-employment through family farms or the provision of labour as an immediate means of improving income. These means of sustenance have largely been paralysed apparently by industrial activities through degraded farmlands and polluted rivers leading to high unemployment among the youths. One perceived impact is risk of sabotage of production equipment and tension between unemployed educated youths and local leaders who benefited from the oil wealth (Bob, 2005). Further more some oil firms often breach agreements entered into with host communities (Andrews, 2005). For instance, on a \$3 billion gas project, Chevron Nigeria Limited (CNL) reneged in its agreement with the host communities on catering contracts and employment of indigenes of the communities (Adebayo, 2006).

To collect clean water, interview revealed, these people paddle their canoe a little further into the middle of the river with the belief that the middle is less polluted. The ostensible impact is widespread diseases such as typhoid, cholera, schistosomiasis etc (Mabogunje, 1996). In fact, schistosomiasis is primarily a rural disease, which in endemic areas can infect as much as 80 % of the population whose ages range between 5-20 years (Listorti and Doumani, 2001). There is no known vaccination for most of these diseases which ample water of reasonable quality for drinking and hygiene could drastically reduce (Thorpe, 2002; UNWWAP, 2003; Hughes and Lovei, 1999; UNWWR, 2006). This clearly shows non-compliance of environmental laws and none adherence to industry standards, which would compel oil companies to employ up to date technology to minimize mishaps and pollution. (Section 25 of the Petroleum Act (PA) (Ikein, 1991).

The question is: What happens to the revenue from the oil and gas gotten from these communities? Oil in Nigeria is one of missed opportunities, administrative disorganization, and resource mismanagement (Khan, 1994). Since 1999, there has been a gradual increase in the total income of the Federal government as shown in Table 1 with exchange rate at circa 140 Naira to 1US dollar.

**Table 1: Revenue from Oil and Non-oil Resources in Billions of Naira (USD in bracket)**

Year	Oil Revenue in N ( \$ )	Non-oil Rev. in N ( \$ )	Total Rev. in N ( \$ )
1999	738,797.7 (\$5.277bn)	210,389.2 (\$1.503bn)	949,187.9 (\$6.780bn)
2000	1,591,675.8 (\$11.369bn)	314,483.9(\$2.246bn)	1,906,742.7 (\$13.620bn)
2001	1,711,460.5 (\$12.225bn)	485,282.2(\$3.467bn)	2,196,742.7 (\$15.691bn)
2002 (May)	505,353.0(\$3.610bn)	178,968.5(\$1.278bn)	684,321.5 (\$4.888bn)

Source: Arinze, 2006

Table 1 shows that revenue from oil accounts for the lion share of the nation's total income. In 2003, while non-oil real GDP declined from 7.9% 2002 to 4.5% the oil sector's real GDP rose by 23.9% in contrast to a decline of 5.7% in the previous year. According to Arinze (2006) the total revenue in 2003 amounted to N2.38 trillion while that of 2002, which stood at N1.50 trillion, reflects an increase of 58% of the total revenue. Of this amount, a total of N917.10 billion went to the federal government, N419.84 billion to the states and the Federal Capital Territory (FCT) and N 346.86 billion to the local government councils including area councils of the FCT. In fact, National Economic Empowerment and Development Strategy (NEEDS) and International Monetary Fund's (IMF) current economic statistics show a fast growing economy where GDP growth and increases in per capital income have doubled over the past years with improved macroeconomic indicators showing a decline in headline inflation to single digits in 2006. In addition, external reserve is also on the upswing with \$41.5 billion in October 2006 from just 7 billion in 2003 (IMF, 2007).

Lion share of the nations revenue goes to the 9 ND states and their respective local governments. This dramatic rise in the revenue to the states has not been translated into viable developmental projects and programs for the benefit of local communities in the ND. For instance, 85 % of the oil revenues accrue to 1 percent of the population. Economic indicators reveal a fall in income per capita from \$250 to \$212 while income inequality increased. These paradoxes and contradictions of oil are no-where greater than in the oilfields of the Niger Delta where in some states (e.g. Bayelsa and Delta) one doctor is available to 150,000 inhabitants (Watts, 2006). Available socio-economic indicators show that the people of Niger Delta are worse off socio-economically than the rest of the country particularly in the area of access to water; self-rated poverty, per capital expenditure, unemployment and environmental degradation (Aigbokhan and Alabi, 2006). The availability of oil and the proceeds thereof have brought nothing but poverty, disease, misery, insecurity, conflicts and political instability in

the region while government guarantee protection to the oil industry that bear a share of the appalling misery (Watts, *ibid*).

**2. Sources of Revenue for the Niger Delta States**

The mains sources are states allocation from the Federation Account; NDDC (Niger Delta Development Commission) funds; derivation principle entrenched in the constitution and other community development interventions (oil company interventions).

**2.1. State Allocation**

Beside internally generated revenue, between 29<sup>th</sup> May, 1999 and 31<sup>st</sup> December, 2005 the coastal states of the Niger Delta received about N1,767,500,000,000.00 (one trillion, seven hundred and sixty seven billion, five hundred million Naira) or approx.. \$12,625,000,000.00 (twelve billion, seven hundred and eighty three million dollars) from the Federation account (Nwaonicha, 2006) (see Table 2).

**Table 2: Allocation from the Federation Account to the ND states (1999-2005)**

No	States	Income (bn N)	\$ (bn)
1	Delta	387.4	2.767
2	Rivers	357.5	2.554
3	Akwa	313.6	2.240
4	Bayelsa	285.6	2.040
5	Ondo	165.2	1.180
6	Edo	131.5	0.940
7	Cr. River	126.7	0.905
	Total	N1,767,500,000,000 bn	\$12,625,000,000.00 bn

Source: Nwaonicha, 2006

One major problem is a lack of decentralisation of the disbursement of community funds. In order to create interdependency among the various power holders the release of community funds for capital projects should be subject to multiple signatures (Local Government chair, the traditional ruler, the community representatives (two members each of men, women and youth on rotational basis)).



## **2.2. Niger Delta Development Commission (NDDC)**

Governments had adopted various strategies that had failed to address the environmental and developmental problems of the ND. These are: Niger Delta Development Board (NDDDB); River Basin Development Authority (RBDA); The Presidential Task Force (PTF) and Oil Mineral Producing Area Development Commission (OMPADEC) and now the Niger Delta Development Commission (NDDC) established in 2000. Similar to other strategies it is aimed at coordinating development projects in Niger Delta area (The NDDC Act, 2000).

The purpose of the commission (S. 7) among others was to formulate policies and guidelines for the development of the ND area including the provision of Basic Need Services (BNS), tackle ecological and environmental problems that arise from the exploration of oil mineral and advice the government (federal, state and local) on the prevention and control of environmental pollution. The commission under the direct control and supervision of the President has its inception received hundreds of billions of dollars from both the federal government and MNCs since. The NDDC is entitled by law to 3% of the oil revenue as was shown by the decision in *Attorney General (A.G.) Federal Republic of Nigeria (FRN) v. A.G. 36 states of the FRN (2001) Supreme Court (SC) 28*. In this case, Justice Ogundare from the Supreme Court of Nigeria relied on section 4A (2) of Cap.16 in his judgement, as amended by Decree No. 106 of 1992. It reiterated that an amount equivalent to 3 per cent of the Federation Account derived from mineral revenue shall be paid into a fund to be administered invariably by NDDC for the development of the mineral producing areas and the fund shall be distributed among the areas on the basis of need.

## **2.3. Challenges and Failures of these Commissions (Particular Emphasis on NDDC)**

The policies that set up these commissions to address development and environmental problems in the Niger delta were well thought out but the commissions were hunted by series of challenges; among the widely known are: lack of a master plan that would define its developmental objectives and strategies, inadequate funding, official profligacy, unfavourable political climate. Above all, are corruption, mismanagement, breakdown of monitoring systems, lack of transparency and accountability that enabled commission members and their political preferences to enrich their pockets with outright impunity (Adabanwi, 2001; Nwaonicha, 2006). The commission has outlived its usefulness. An alternative would be a project monitoring and implementation intelligence commission (ND version of due process) whose role would be strictly regulatory inter alia: to monitor and audit project implementation and make reports and recommendations to the government.

**2.4. Derivation Principle**

Another source of income is the resources entitled to these states by virtue of the principle of derivation under, which as much as 13% of revenue derived from mineral resources constitutionally goes to the states from which such resources were derived. In other words these states are entitled to larger share of funds from the Federation Account by virtue of the 1999 Nigerian constitution also reaffirmed in the case mentioned above. Table 3 shows a typical allocation formula including amount.

**Table 3: Gross Statutory Allocation, 13% Share of Derivation Principle and Gross Total of the ND States from the Federation Account in Naira (N)**

No.	Gross Statutory Allocation from Fed. Account	13% Share of Resources derived from the States	Gross Total from the Fed. Account to the States	Allocation from excess Crude Oil Income
<b>Total (ND states)</b>	11,217,169,793.38	22,394,400,274.75	33,611,570,068.13	5,959,140,258.34
<b>Total (all 36 states)</b>	47,641,677,552.11	22,602,285,857.06	70,243,963,409.17	11,786,357,289.93

Source: Federal Ministry of Finance (FMF), 2005 in: [www.dawodu.com/aluko/122.htm](http://www.dawodu.com/aluko/122.htm) 23.09.05

The inadequacy of these funds to address the huge environmental and developmental problems is not in dispute but how transparently funds were administered to the projects or purposes for which they were allocated. Greater part of such funds often finds their way into private pockets of leading politicians and their affiliates through award of overbloated contracts or outright stealing (Int.Nr. ND 006/015). Pending cases against leading politicians in the ND are cases in point (the former governor of Bayelsa state) coupled with misallocation within the state, “rather than embark on sustainable development in our communities, the government (Delta State) had, at all times diverted the money to non-oil producing communities of delta state” (Okafor, 2006).

**2.5. Other Interventions by Stakeholders**

There are examples of interventions by oil firms. For instance, in 2003, Shell admitted spending \$69 million (3% of joint venture budget a year on community development interventions in the Niger Delta (The other Shell Report, 2003). It seems there is an upward swing in the spending profile of multi national companies to address community development projects that are rarely identifiable.

In answer to the question posed above one can comfortably say that public officials, politicians and influential local leaders in the region, corruptly misappropriate these funds. In other

words lack of good governance is the reason for the widespread poverty in ND local communities. An avid Newspaper reader (Nwankwor, 2005) had been prompted to question:

“Is the Niger Delta underdeveloped because the federal government is not paying enough attention to our needs or because our Niger Delta leaders are egocentric? Is it that we Niger Deltans are ignorant of what has been allocated so far to our states from the federal level and how ‘well’ these allotments are being utilized [...] are you fighting for leaders that plunder while we suffer [...] nothing tangible has been made known for the 13% derivation fund released so far except for a flamboyant show-off of stolen wealth by those in position of leadership.”

In fact, Soyinka (2006) described the situation thus: “All kinds of hyenas want to get their teeth into that rotten meat. There is no getting away from that. It’s liquorice that these power children really cannot stop themselves licking. I am convinced that Nigeria would have been a more highly developed country without the oil. I wish we’d never smelled the fumes of petroleum.”

## **2.6. Corruption and Environmental Degradation**

A link between lack of development, environmental degradation and corruption could easily be established not only by reasoning on the level of concepts and theories but also by practical demonstration of what is seen on the ground. Corruption and environmental destruction go hand in hand, opined Welfens (2001; van den Berg, 1999) and Eigen (2001/2003) and in the ND, lack of development is a victim of corruption and the many decades of environmental degradation. Thus, high rate of corruption, low transparency and accountability are antitheses to community development in the Niger Delta. This practice of large scale corruption has stalled the implementation of pollution control laws whereas industry owners commonly perceive public servants as tools to be bought by monetary incentives (Desai, 1998). In addition, if bureaucrats were placed into positions to administer policies that are given discretionary powers, subjects to abuse policy implementation would suffer a great deal (Damania in Gangopadhyay et al, 2005). In the Niger Delta, there are waiting open hands, both in the public and private sector even at the community level, for advantages from the polluting MNCs. While they (the corrupt) count their ‘blessings’ (money) and watching exchange rates, pollution of the environment (land, water and air) continue unabated (Int. Nr. ND010). A decrease in the level of corruption leads to higher growth rates and consequently an improvement in the environmental policy (Pellegrini et al, 2005).

### **3. What is Responsible for this State of Affairs and how can it be controlled?**

In other words what makes corruption a thriving business in this region? Firstly, distribution of property right in resources is a major cause of corruption. An example is the Land Use Act 1978, which was designed to create uniformity of access to land to all citizens of the state, to reduce the confusion in identifying ownership of land, to eliminate family feud that normally result in endless litigations and to allow government easy access to land for developmental purpose, but it has become a tool of corruption. The Act, by ceding ownership to the state invariably cedes ownership to the elite and the better-off members of the society who use it only to advance their interest (Baker, 1990). It has also created avenues for corruption among public agents. For instance, submission of Deed of Assignment or application for Certificate of Occupancy (C/O) and the requirement of permission from the office of the governor are such avenues that are laced with barefaced and unbridled bribery and corruption (Adediran, 2001; Savannah Bank of Nigeria Ltd and others v. Ammel O. Ajilo; Gbadamosi S. Olorunfemi and Others v. Chief Rafiu E. Asho and Others, 1999). The Act primarily “restricts community access to land, while at the same time making it possible for MNCs to have unrestricted access to explore for oil unchallenged even on sacred land” (Soeze, 2003). In addition, the victim is frustrated by a law, which bequeaths to the government freehold right and the victim (owner) with leasehold making it mandatory for him/her to obtain a license to occupy and use land upon payment of rent argues Adediran (ibid). There is no gainsaying that there are unwarranted bureaucratic bottlenecks involved in obtaining C/O in Nigeria, which leads to unlimited bribery and corruption by public officials (Okorodudu-Fubara in Amadi, 2001).

So, if corruption means that public resources are ‘sold’ for private money it may be of consequence whether the resource (mineral oil in this case) is allocated to the state or to local communities. If the resource, or a share of it, was in some way given to the local communities, his or her citizenry would more closely control the responsible personnel, and he or she would develop an ethics of collective responsibility. However, if the resource is owned by the state (as is the case in Nigeria – by virtue of the 1978 Land Use Act and the Petroleum Act 1969) it would loose its substantial link with concrete citizens and kins. Being an abstract asset of the state machinery, it is rendered at the disposal of the given power structure where by responsible administration of the resources or the proceeds that flow from it would depend on whether the power structure is democratic and responsive, or else autocratic and greedy.

Secondly, abuse of discretion is often related to deficiency in administrative competences and failure of administrative disciplinary guarantees. Lack of access to information, inadequate

and ambiguous laws, rules and regulations create opportunities for the exercise of discretion that are often misused in favour of highest bidder or cronies and political affiliates. Laws that set unclear standards and benchmarks often boost abuse of discretion. For instance S. 4(2) (3) of the Oil in Navigable Water Act uses such imprecise phrases such as '*as soon as practicable*, '*all reasonable steps*.' No criteria on what amounts to 'as soon as practicable' and 'reasonable steps'. Are these steps taken within ten hours, twenty-four hours, two days, three days, one month, 6 months or 18 months after an oil spill or explosion? Is it reasonable that steps to clean up an oil mess are being taken days or weeks or months after an explosion? Other ambiguous clauses contained in the laws (National Environmental Protection Regulation (NEPR) and Environmental Guidelines and Standards for the Petroleum Industry in Nigeria (EGASPIN), Federal Environmental Protection Agency (FEPA), Oil in Navigable Waters Act, Petroleum Act (PA), Oil Pipeline Act (OPA), etc) are: Best Available Technology (BAT) or Best Practical Technology (BPT), etc. To fetter such discretions would mean to review and amended these instruments.

Thirdly, the 'godfatherism' syndrome is another cause that is rarely considered in literature. Junior politicians and public officials often use 'godfatherism' syndrome to reach unmerited heights or obtain unmerited rewards and misuse public resources with impunity. 'Godfatherism' is the parallel power structure that dictates and directs affairs of state from behind the scene with unrestricted impunity while having little regard to institutions and laws. The impunity to plunder public funds flows not only from ambiguous laws but also from the support enjoyed from the parallel power structure otherwise known as 'political godfathers'.

Other causes include lack of fair remuneration particularly relating to public servants who acknowledge the need for such 'salary supplement'; the immunity clause in the constitution upon which political leaders are excluded from prosecution while in office; the use of religion where politicians and leaders donate sums of money to churches to solicit their assistance in purchasing the people's silence in order to forestall public outrage (Int. No. 009); the unwarranted bureaucratic red tapes that exist in the public sector; vulnerability of local chiefs and leaders who jostle for a piece of the pie while toxic wastes are being dumped or buried on communal land, bribes which include giving money for scholarships for the children of influential chiefs in order to suppress action against oil companies. There are company paperwork which suggests that the leaders were actually spending the money on scholarships; selling of job placements allotted to specific communities to outsiders by local leaders and sometimes, by the individuals themselves (Int Nr. ND 003); the misuse of some local people to disseminate wrong information in order to instil disaffection among different groups, tribes and clans.

For instance, an interviewee “*we hear every night the movement of heavy duty vehicles we were told they were oil bunkers; we did not know that they were burying dangerous chemicals in the ground*” (Int. Nr. ND 007). Naturally, waste discharge must be guided by certain rules and procedures in order to minimise abuse of administrative power. Another cause is the absence of clear local rules on corruption.

#### **4. Corruption Abatement Measures in Nigeria**

##### **4.1. Traditional Methods**

Criminal and administrative laws are the traditional legal instruments for controlling corruption in any given legal system. Their primary objective was to guard and protect the sanctity and integrity of government functionaries while executing their legitimate duties. In cases of corruption, traditional anti-corruption methods are designed to supervise the financial and other improprieties of public officials who may be prone to arrogate to themselves or cronies undue advantages by virtue of their public offices. In general terms, criminal law can be employed to minimise environmental degradation through the imposition of fines, jail terms, penalties, closure or seizure of facilities, negative publicity, environmental audits, injunctions etc (van Zeben, 2003). Administrative procedure sets rules and regulations and lays down disciplinary guidelines (West African Examinations Council, (WAEC) v Mbamalu) to regulate internal administration; investigate misconducts that are contrary to law or inconsistent with the general functions of administrative organs. Failure to act might turn out the superior accountable under the tortuous principle of vicarious liability. But the abysmal failure of criminal law as a measure of environmental protection is not only due to its associated subsidiary role in the field as Borrero-Navia (1994) argued but also due to the corrupt administration of the penal justice system particularly in Nigeria where misadministration of public funds is an acknowledged norm (Lewis, 1996). This failure has created opportunities for new strategies as discussed below.

## **4.2. Modern Methods**

### **4.2.1. Transfer of Property Right or Right to Proceeds derived from the Use of it**

Revision of laws that ceded communal rights to land and mineral resources to the state turning what hitherto was a private property into an abstract public asset subject to mismanagement and squander. If this right to resources or part thereof was reversed it would check corrupt utilisation of the property or the ensuing revenues and the government (federal, state and local) would benefit from royalties and taxations.

### **4.2.2. Plea Bargaining**

The huge number of corrupt cases in Nigeria has informed the agitation for this concept. This huge number of past cases has been acknowledged by some Anti-Corruption Commissions (ACC; Ribadu, 2006). If current ACCs are to succeed, they must introduce the use of plea-bargaining defined as an informal process of negotiation in which the prosecutor and the defence counsel reach an out-of-court settlement resulting in the defendant's admission of guilt or plead 'no contest' in return for a concession (Herzog, 2003; Ebbe, 1996). It is geared towards dealing with the past, so it does not constitute a clog to current efforts. It also eases administrative bottlenecks in criminal justice system; it cuts trial costs and reduces the workload of the courts (Brady v United States; Neier, 1997; Ebbe, 1996; Fisher, 2004; Baillot, 2005; Miller, Jr. et al, 1998).

There are various forms of plea-bargaining and these include trial or charge bargain (reduced charges in exchange for a guilty plea); sentencing bargain (discount sentences in exchange for a guilty plea) (Fisher, 2004). There are critics who argue plea-bargaining could be used against the defendant (Morton, 2005; Ashworth in Herzog, 2003). The practice procedure for pleas established in the case of Goodyear (2005) could allay critics' fears and could be informative to the Nigerian situation. In this case, the court directed that application for a plea must be held in the presence of the defence, the prosecution counsel and the judge who reserves the right to accept or reject the application.

Other lesser forms of pleas are: Firstly, amnesty (blanket abolition of the defendants offence by government) which would be necessary if the circumstances that made the acts criminal no longer existed or would have faded in importance or if there had been a change in public conditions (social, political and economic) that would warrant overlooking of charges against such persons or a change in the laws dealing with corruption could not be made retroactive. Secondly, pardon (clemency to a person convicted of a crime) restores the full rights and obligations of the pardoned while amnesty may have some strings attached like prohibition or

ban from active politics. Thirdly, national reconciliation, which relates to bringing opposing political, ethnic or religious factions or groups to come to terms with one another nationally. It could also mean a process of creating an understanding in the public of the past actions of confessed public servants who acknowledge the wrongness of their past actions. Generally it involves the initiation of a public hearing where the person involved in past criminal action or unethical behaviour is given the chance to confess and show public remorse. National reconciliation requires public forgiveness. To secure public support means appeasing the public in some sense. This could include restitution of proceeds of the crime; or where full restitution would be not probable by taxing their existing properties irrespective of origin (UN Anti-corruption Tool Kit, 2004).

The reason for the failure of Oputa panel (national reconciliation committee) may not be unconnected with the fact that certain highly placed individuals with alleged corrupt records do not know how to deal with the intimidating task of public humiliation that may flow from outright public confession. Such a situation could be avoided by allowing such individuals to make honest confession through their legal representation or through a trusted third party.

For a majority of Nigerians it would be reprehensible to call for amnesty or pardon for corrupt criminals simply because of the ills of corruption. Thus, the 1984 Buhari/Idiagbon regime that promulgated and meted out harsh penalties to corrupt public servants and politicians received widespread public jubilation (Lewis et al, 1998; Decree No. 2, 1984). However, public approval is vital to the success of any government policies. Hence, despite executive prerogative over the use of these forms of plea, it is often advisable to balance their use against the interest of the political system and that of the public who holds the key for re-election where officials are elected based on free and fair election. The need for these sorts of plea could not be higher now in Nigeria where new democratic process is taking hold along with new anti-corruption legal frameworks and regulatory institutions. In addition, lengthy trial period that is capable of frustrating not only the most patient defendant but also the prosecution and the general public are also incentives.

A further merit may be a mechanism that creates a special account or fund where all such loots retrieved through plea-bargaining be deposited and redirected towards community development projects or redirected to the federation account for national budgeting matters or allowed to flow back to where the funds were initially stolen or paid into an anti-corruption trust fund for anti-corruption activities. It may also be necessary to place a limitation in terms of upper limit of the money or money's worth involved in the corruption that could enjoy the benefit of pleas. For instance, any corruption crime that is in excess of may be \$30,000 (N5



million) will be prohibited from plea-bargaining. Although pleas do not currently enjoy constitutionality in Nigeria the National Working Group on the Reform of Criminal Justice Administration has strongly recommended its use (Amokeodo, 2005).

### **5. Explaining Life-style**

In Nigeria as well as in other African states extremely rich individuals are generally regarded as corrupt (Coldham, 1995). This is as a result of the exorbitant life styles they display in midst of widespread poverty and despair. Taking example from the rose revolution in Georgia, under the Administrative Procedure Code article 17 chapters 7 a public official must prove that his life style accords with his emoluments before an administrative court even if such person was removed from his position (art. 21). In 2003, the UN under Article 20 UNCC (United Nations Convention against Corruption) in effect gave its full backing to scrutinize the living styles of public officials, when it enjoined all member states to criminalize illicit enrichment by public official where he or she cannot reasonably explain a significant increase in his or her assets in relation to his or her lawful income.

The difficulty here is that a public officer may be unwilling to explain the source of his excess income though uncorrupted but illegal if he operates a parallel business while being a public officer. This is common in Nigeria and other countries where income from parallel business is meant to supplement the low salary structure that is often irregularly paid. This issue was clearly settled under articles 21(8) (1) and 21(6) (2) of the Georgian code, which expressly provide for the state to assume ownership of property if the defendant fails to prove legitimate acquisition of the said property and the rightful owner cannot be determined. The same is true of the African Union anti-corruption convention articles 1 and 8 which respectively defines illicit enrichment as *the significant increase in the assets of a public official[...] which he or she cannot reasonably explain...in relation to his or her income* and direct state parties to criminalize it through domestic legislation.

### **6. Whistle Blowers Protection**

Generally the role of whistle blower is to unveil the shield of secrecy in a corrupt deal and make the information known to non-participants or make it an issue for public investigation or press coverage. In Nigeria, the Independent Corrupt Practices Act (ICPA) 2000 provides legal protection for whistle blowers and informants on corrupt practices (ICPA, S.64). Comparative legislation is articles 6 and 5 (5) of the African Union Convention (AUCPCC) which went a step further to provide for the protection of identities of whistle blowers and witnesses.

Meanwhile and bearing in mind the actions of some African administrative heads and the mountainous task of proving corruption article 7 of the same convention shrink the coverage, which articles 5 and 6 guaranteed by insisting punishment for those who make “false and malicious corruption claims” against innocent persons. What amounts to false and malicious needs to be clearly defined? Is it if a case cannot be proven or if it was not for what ever reason ever brought to trial? On the other hand, the difference between whistle blowing in advanced countries like Germany and in developing countries like Nigeria is that safety to life and property is higher in former than in the latter where people are often afraid of vindictive and retaliatory actions, which may sometimes lead to assassinations. Art. 32 UNCC likewise enjoined states to provide protection for informants, their relatives and associates including relocation where necessary (Art. 32 (2a)). In whistle blowing media role has led to a series of investigations: the Halliburton \$180m bribe scandal and the resignation of the police chief for corrupt charges (U4, 2004). Thus, it has been suggested that strengthening state institutions alone is not enough to control corruption rather an effective reform strategy that guarantees strengthening the capacity of professionals and civic associations, think tank, the mass media, and independent interest groups. These actors must mobilise vigorously to generate broad societal demand for institutional reforms (Diamond and Plattner, 2001).

## **7. Other Measures**

These include Anti-corruption Commissions (the Independent Corrupt Practices Commission (ICPC), the Economic and Financial Crimes Commission (EFCC) and Code of Conduct). For instance, the ICPC and EFCC like others are primarily quasi-judicial bodies specifically dedicated to combating corruption. While the former focuses on enforcement of criminal law provisions on corruption coupled with prevention and awareness building activities the latter was created to prosecute individuals involved in economic and other financial crimes including advance fee fraud and other related offences (Akinsanmi, 2004). They are both vested with investigative and prosecutorial powers under the ICPC if they only were strengthened 2000. These ACCs coupled with Code of Conduct Bureau could be result oriented. For instance, EFCC with barely two convictions and roughly over 500 suspects in custody and over 50 cases pending in court it is difficult for one to argue that the commission has so far been successful. The same is true of ICPC and the Code of Conduct Tribunal. Both commissions are respectively moving at ‘snail speed’ in handling cases referred to them by the public and by the Code of Conduct Bureau. However, one of the outstanding strides of the government in its anti corruption drive is the harmonization of the enforcement roles of other economic and

financial crimes legislation under a single body the EFCC (Money Laundering Act 2004; the Advance Fee Fraud Act, 1995 and other relevant laws).

Despite the non-questionability of the constitutionality of ACCs resulting from the Supreme Courts decision in *FRN v. Anache and others*, ACCs generally still face legal handicaps. For instance, the code of conduct tribunal in Nigeria is unable to function effectively because of constitutional impediments like S. 3 c Third Schedule 1999 constitution where the National Assembly is entrenched with the power to set conditions for the tribunal to carry out certain activities and the nolle prosequi in S. 174, (1) (c) Nigerian Constitution (NC) under which the A.G. recently entered a nolle prosequi to discontinue a 400 million Naira (\$270 million) fraud case against some defence ministry officials without due regard to public interest (Sambo, 2005). New laws are needed to cater for the now common e-crimes (cyber crimes), which bring their admissibility in evidence into question (*Yesufu v. African Continental Bank (ACB) 1976*) 4 SC 1. In addition, the corrupt are usually very rich and are therefore able to manipulate political influences and pressures to their advantage. Hence, Ribadu (2004) blamed corruption as the principal reason for the failure of law enforcement. ACCs also suffer from lack of independence hence they could become political weapon for the ruling class.

One weak spot of ACCs is weak procedural guarantees because of the hasty and vindictive manner in which certain investigations are carried out coupled with enforcement officials that are placed in positions that enable them to side step new initiatives. In contrast, the often quoted Hong Kong and Singapore ACCs miracle are based on a combined commitment from the top, credible law enforcement, a strong statutory base and a reformed civil service (Rose-Ackerman: 1999).

Comparatively, Germany does not have ACCs because of the low level of corruption in the public sector, which is the result of high administrative professionalism. However, the recent rise in the level of corruption has informed new initiatives such as the federal government directive on the prevention of corruption in the federal administration issued under Article 86 (1) Basic Law (BL) where ministries are requested to conduct risk analysis; adopt “greater scrutiny and transparency principle” (“Mehr Augen-Prinzip und Transparenz”), appoint corruption control desk (“Ansprechpartner for Korruptionsvorsorge”) and ban corrupt competitors from any future bid.

Others like Budget Monitoring and Price Intelligence Unit (BMPIU), Nigerian Extractive Industries Transparency Initiative (NEITI) and fiscal responsibility pact are also anti-corruption measures that employ less aggressive means of combating corruption. They are designed to increase transparency and accountability and better management and efficiency in

the use of public resources. For instance, the BMPIU (due process) focuses on monitoring the budget, contract award review, oversight and certification of contracts in order to remove excess 'fat' or over-bloated (Obasanjo, 2003) introduced by reckless public officials (although it has been blasted for constituting another clog to speedy implementation of projects) while NEITI concentrates on transparency in the reporting and disclosure by Extractive Industries (EI) of revenue due to or paid to the Federal Government (FG; Section 3 (a)(d)(f) NEITI bill). Efficiency of this unit recently led to the discovery of large corporate financial discrepancies, which Ezekwesili (2006) referred to as culture of weak record keeping by extractive industries (EI's). For instance, in 2003 Central Bank of Nigeria (CBN) claimed it received \$471 million from Chevron who claimed it paid \$518 million to CBN. The same incongruity was found in 2004 (\$23 million as against 19 million) (Okogu: 2006). Despite its outstanding performance so far, it seems to have slowed down its activities as a result of political pressure.

## **8. Recommendations and Conclusions**

*A) Corruption:* Firstly, the transfer of property right in resources or the proceeds thereof is one active weapon against corruption and bad governance in the Niger Delta. As mentioned above, natural resource in the ND is government property and therefore abstract and subject to abuse but if the resource, or a share of it, would be in some way given to the local communities, his/her citizenry would more closely control the responsible personnel and he or she would develop an ethics of collective responsibility. Secondly, to instil fiscal discipline in the political as well as in the community leaderships through the introduction of transparency and accountability training at all levels of the public sector – from top to bottom to enable officials and community members appreciate corruption and its overall impact. For ACCs to be more result-oriented plea-bargaining must be employed often in order to get rid of the backlog cases to enable them focus on current and future occurrences. Guarantee independence of ACCs by creating Anti-corruption Trust Fund to finance their activities. The current ACCs are desirable and making great strides but the 'magic bullet' may yet lie in recognizing the inputs and participation of community members collectively (Grass Root Organizations (GROs), Community Based Organizations (CBOs)) as key stakeholders in the war against corruption and success at this level could strike a challenge at the national level thereby contributing to set and to shape national agenda on issues of corruption. Harmonize all grass root capacity building institutions under a single body to be funded also from the trust fund. Engage skilled Civil Society Organizations' (CSOs) representatives in the current ACCs like NEITI and others to help monitor-auditing procedures. The presence of a sizeable number of

CSOs in these institutions signifies government's readiness to be open, transparent and accountable. This will put potential corrupt public officials and companies and the local leaders on notice. Encourage the formation and fund anti corruption GROs and CBOs to check the excesses of local leaders and chiefs. Inform the public through advocacy campaigns. Media, NGOs, CBOs and GROs must wake up to their responsibilities of information sharing and use local communication systems like town criers more often. Right to information must reflect local language and understanding because informed people are better equipped to handle situations.

*B) Community Development:* Training of the youths as professionals is the insurance to their future without unemployment. Community members must be engaged directly in the procurement and execution of community projects. Of urgent importance is the provision of potable water and community sanitation facilities. Human development is not only about building schools and roads but also about the provision of water and sanitation facilities. Such projects on BNS must be undertaken by skilled contractors working in collaboration with local groups. Abrogation of NDDC and in its place a project monitoring and implementation intelligence commission (ND version of due process) could be put in place to monitor and audit project implementation and make reports and recommendations to the government. It should not be involved in award of contract or implementation of projects. Its role could be strictly regulatory. This will ensure that funds get to competitive community groups that are skilled in project identification, initiation and implementation. This process will reawaken enthusiasm in community development and oversight. As for chiefs and traditional rulers, enact edicts to mandate traditional rulers, chiefs and leaders to declare their assets and sources of income. Institute a process where they face annual confidence vote from their subjects. Fraud and misuse of power could be sufficient grounds to strike a confidence vote.

*C) Disbursement of Community Funds:* Decentralisation of the authority to release community funds for capital projects. Subject it to multiple signatories as discussed above. This sort of relationship would create interdependency among the various power holders viz: the council chair, the traditional ruler(s) and the people. In this sense, corrupt use of communal funds will create negative stigmatisation rather than the current practice where venality is rewarded with chieftaincy titles and other accolades. Creating a 'trust fund for future generations' could allay the fears of youths.

*D) Legal Regimes:* Revision of all the vague and restrictive laws that deny the communities access to mineral resources by transferring the resources or a share of it to the local communities in order to instil ownership and develop an ethics of collective responsibility and community oversight. If this happened there would be less need for ACCs. Reverse the burden of proof in corrupt cases with due diligence to the presumption of innocence principle {(Section. 36(5) NC}. Local laws should be clear on issues relating to corruption and sanctions such that it will no longer be viewed as a government problem but of the entire community.

I conclude that Nigerian laws on development and environment suffer from lack of clarity and also they are deficient in law enforcement. There are also traditional anti-corruption modes that have largely failed. Modern anti-corruption methods are quite desirable but the ‘magic bullet’ may yet lie in recognising the rights of local communities to these resources as key stakeholders in the war against corruption. Any seriousness about corruption that does not take into consideration any framework to eliminate the power base of the so called ‘godfathers’ is headed for failure. The waning support for ACCs in Nigeria emanates from their lack of independence, which denies them of the will and power to prosecute political heavy weights. In a nutshell, good laws coupled with an increase in right of access to resources excluding misappropriation of funds would lead to good governance in the local communities in the ND and this approach could be represented as follows:

$$\textit{Good Laws + Increase in Right to Resources – Corruption = Good Governance}$$

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## **ANNEX I**

### **International Research Workshop – Programme**

Research Group on African Development Perspectives Bremen University of Bremen, Cooperative Research Project between the Universities of Khartoum, Juba, Ahfad, Nairobi, Addis Ababa and Bremen: Governance and Social Action in Sudan after the Peace Agreement of January 9, 2005: Local, National and Regional Dimensions

### **International Research Workshop**

"Reconstructing Economic Governance after Conflict at Local, Provincial and National State Levels in Resource-Rich African Countries. Comparative Analyses"

15 - 17 November 2006, Institute for World Economics and International Management (IWIM), University of Bremen, Germany

Conference Venue: University of Bremen, VWG (Verwaltungsgebäude) Room: 2060, "Kapelle"(Chapel)

### **Objectives of the Workshop**

1. Analysis of the objectives and instruments to reconstruct economic governance in former conflict regions that are well endowed with natural resources.
2. Presentation of Case Studies (Sudan, Nigeria, DR of Congo, Cote d'Ivoire, Angola, Cameroon, Ethiopia, Ghana) in order to demonstrate ways and modalities for reconstructing economic governance.
3. Deriving lessons from analyses and case studies for countries and regions with lasting conflicts so as to consolidate peace.
4. Publication of Policy Briefs on the issues so as to inform quickly the academic world and the wider international public about the research results and the discussions during the workshop.

### **Funding:**

University of Bremen and Volkswagen Foundation

Organisation: IWIM, University of Bremen (iwim@uni-bremen.de)

## ***Programme***

***Wednesday, 15th November 2006***

14:00 Registration

15:00 Session 1: Introduction and Issues

*Karl Wohlmuth, IWIM, University of Bremen:*

Welcome by IWIM/Structure and Organisation of the Workshop

*Karl Wohlmuth, IWIM, University of Bremen: Reconstructing Economic Governance after Conflict in Resource-Rich African Countries: Issues*

*Afeikhena Jerome, Coordinator for Economic Governance and Management NEPAD/African Peer Review Mechanism (APRM), Midrand, South Africa: Keynote Lecture: Reconstruction of Economic Governance in Re-source-Rich African Countries and the Role of the APRM*

16:00 - 16.30 Coffee Break

16:30 Session 2: Institutions, Policies and Politics in Re-source-Rich African Countries

Chair: Kassahun Berhanu Alemu, Addis Ababa University, Addis Ababa, Ethiopia/OSSREA, Addis Ababa, Ethiopia

*Berhanu Denu, Addis Ababa University, Addis Ababa, Ethiopia: Institutions and Governance in Resource-Rich Countries: What does Institutional Economics tell us?*

*Tayseer Al Fatih, Institute of Women, Gender and Development Studies, Ahfad University for Women, Omdurman, Sudan: Economic Policies for Post-Conflict Societies and Participation in Local Institutions*

*Yasir Awad, Department of Political Science, University of Khartoum, Khartoum, Sudan: Avoiding a Resource Curse in Africa - A Political Scientists View Discussion*

18:30 Closing for the Day

**Thursday, 16th November 2006**

9.00 Session 3: Reconstructing Economic Governance in Re-source-Rich African Countries

Chair: Samson S. Wassara, University of Juba, Khartoum Campus, Khartoum, Sudan/UNICEF, Khartoum, Sudan

*Reuben Adeolu Alabi, Department of Agricultural Economics, Ambrose Alli University, Ekpoma, Edo State, Nigeria / Moses Ailemen, Department of Economics, Ambrose Alli University, Ekpoma, Edo State, Nigeria: Democratic Governance, Economic Growth and Development in Nigeria*

Comment: Osmund Uzor, IWIM, Bremen University

*Bedia Francois Aka, University of Bouaké, Côte d'Ivoire & University of Luxembourg, CREA, Luxembourg: Reconstructing Economic Governance in Cote d'Ivoire after Conflict*

Comment: Hans Heinrich Bass, University of Applied Science (Hochschule Bremen), Department of Business and Economics, Bremen

Discussion

10.30 -11.00 Coffee Break

*Afeikhena Jerome, Midrand, South Africa: The Challenges of Economic Reconstruction in Post-Conflict Resource Rich African States - The Cases of Democratic Republic of Congo and Angola*

*Katja Trinks, GTZ, Eschborn: Extractive Industries Transparency Initiative (EITI) and Governance in Ghana: The Role of Institutions*

*Kassahun Berhanu Alemu, Addis Ababa University, Addis Ababa, Ethiopia/ OSSREA, Addis Ababa, Ethiopia: The Future of Ethiopia: Growth, Civil Conflicts and Oil Prospects in the Border Regions*

Discussion

12.30 – 14.00 Lunch Break

14:00 Session 4: Oil Production, Oil Revenues and Governance in Sudan

Chair: Afeikhena Jerome, Midrand, South Africa

*Samson S. Wassara, University of Juba, Khartoum Campus, Khartoum, Sudan/UNICEF, Khartoum, Sudan: A Framework for Economic and Social Development in Southern Sudan Implications for Oil and Water Management and Resource Politics*

*Mustafa Babiker, University of Khartoum: Geography and Ethnography of Oil Production in Sudan*

*Abraham Matoc Dhal, College of Social and Economic Studies, University of Juba, Khartoum Campus, Khartoum, Sudan: Oil Revenues and Fiscal Policy in Postwar Sudan - Focus on the Government of Southern Sudan's Financial Sustainability*

Discussion

15:30 – 16.00 Coffee Break

16.00 Session 5: Oil, Multinationals, Structural Changes, Power and Governance Reform in Sudan

Chair: Bernard E. Aigbokhan, Department of Economics, Ambrose Alli University, Ekpoma, Edo State, Nigeria

*Paul Wani Gore, University of Khartoum, Khartoum, Sudan: The Oil and its Influence on the Demographic, Economic and Commercial Processes: The case of Northern Upper Nile in Southern Sudan*

*Luke Anthony Patey, Danish Institute For International Studies, Copenhagen, Denmark: The Strategic Behaviour of Multinational Oil Corporations and the New Wars in Sudan*

*Joshua Akol, University of Juba, Khartoum Campus, Khartoum, Sudan: Oil Exploration and Post-War Socio-Economic Recovery in Unity and Upper Nile States, Sudan*

Comment: Esther Ikere Eluzai, Juba University/Parliament South Sudan

Discussion & Closing for the Day



***Friday, 17th November 2006***

9:00 Session 6: Economic Governance and Human Development - The Regional and Local Perspectives

Chair: Bedia Francois Aka, University of Bouaké, Côte d'Ivoire & University of Luxembourg, CREA, Luxembourg

*Tino Urban, IWIM, University of Bremen: Oil and African Development: What the Development Indicators and Indexes tell us about the Livelihoods Situation in Oil-rich African Countries*

*Ben E. Aigbokhan, Department of Economics, Ambrose Alli University, Ekpoma, Edo State, Nigeria: Reconstruction of Economic Governance In the Niger Delta Region in Nigeria: The Case Of the Niger Delta Development Commission*

(Presenter: Reuben Adeolu Alabi, Department of Agricultural Economics, Ambrose Alli University, Ekpoma, Edo State, Nigeria)

Comment: Mareike Meyn, IWIM, University of Bremen

Discussion

10.30 – 11.00 Coffee Break

*Ignatius Adeh, University of Bremen, Faculty of Law, Bremen: Natural Resources and Good Governance - The Case of the Local Communities in the Niger Delta*

*Julius Azelama, Department of Public Administration, Ambrose Alli University, Ekpoma, Edo State, Nigeria/ John Imahe, Department of Economics, Ambrose Alli University, Ekpoma, Edo State, Nigeria: Economic Governance: Resolution of the Niger Delta Conflict in Nigeria through Community Based Associations*

Discussion

12:30 – 14:00 Lunch Break

14.00 Session 7: The Darfur Crisis, Oil and Natural Resources Management

Chair: Elke Grawert, IWIM, University of Bremen

*Abdel-Ghaffar M. Ahmed, Development Studies, Ahfad University for Women, Omdurman, Sudan /Department of Social Anthropology, University of Bergen, Bergen, Norway: The Darfur Crisis: Does Oil Matter?*

*Hannelore Kusserow, Department of Geology and Biology, Free University of Berlin: Resource Competition in the Context of US and Chinese Geopolitical Interests*

*Buthaina Elnaiem, Juba University, Khartoum Campus, Khartoum, Sudan: Making Markets work for improving the Livelihood of the Poor. The Role of Natural Resources Management and of Local Institutions in Western Sudan*

Discussion

15:30 - 16.00 Coffee Break

16.00 Session 8: Border Issues, Oil and Governance

Chair: Karl Wohlmuth, IWIM, University of Bremen

*Regassa Bayissa Sima, Addis Ababa University, Department of History, Addis Ababa, Ethiopia: Gambella, Oil and Governance*

*Francis Menjo Baye/ Alexandre Magloire Schouame, Department of Economics and Management, University of Yaounde II, Yaounde Cameroon: Bakassi Dispute Settlement between Cameroon and Nigeria: What Prospects for Sustainable Peace and Development?*

(Presenter: Sebastian Ebenthal, IWIM, University of Bremen)

Comment: Sebastian Ebenthal, IWIM, University of Bremen

Discussion

17:30 Session 9: Concluding Session

Roundtable Discussion: Country Experiences, Agendas for Action and the Role of NEPAD's APRM

Chair: Karl Wohlmuth, IWIM, University of Bremen

*Speaker:*

- Abraham Matoc Dhal, College of Social and Economic Studies, University of Juba, Khartoum Campus, Khartoum, Sudan
- Reuben Adeolu Alabi, Department of Agricultural Economics, Ambrose Alli University, Ekpoma, Edo State, Nigeria
- Bedia Francois Aka, University of Bouaké, Côte d'Ivoire & University of Luxembourg, CREA, Luxembourg
- Berhanu Denu, Addis Ababa University, Addis Ababa, Ethiopia
- Afeikhena Jerome, Coordinator for Economic Governance and Management NEPAD/African Peer Review Mechanism (APRM), Midrand, South Africa
- Karl Wohlmuth, IWIM, University of Bremen

The Workshop Results, an Economic Governance Reform Package and the Implementation of an Agenda for Action

18:00 Closure of the Workshop by Professor Karl Wohlmuth

18:30 Dinner Reception by IWIM

## ANNEX II

### **Contents of the IWIM-Publication Volume 15 “Reconstructing Economic Governance after Conflict in Resource-rich African Countries” *Including the Collection of Policy Briefs***

Wohlmuth, Karl / Urban, Tino (Eds.) 2007: Reconstructing Economic Governance after Conflict in Resource-rich African Countries, IWIM Bd.15, Berlin: LIT Verlag.

ISBN 3-8258-0468-8, <http://www.lit-verlag.de/isbn/3-8258-0468-8>

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