ADDRESSING OIL RELATED CORRUPTION IN AFRICA. IS THE PUSH FOR TRANSPARENCY ENOUGH?

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ABSTRACT

The oil industry in Africa is currently at the epicenter of corruption charges amidst international efforts to introduce greater transparency in the management of oil resources. This study appraises oil-related corruption in Africa and the role the human factor can play in lifting the resource curse. It argues that the call for transparency in dealing with those who are engaged in corrupt practices in African countries is necessary, but in itself not sufficient for minimizing this problem. To be successful in reducing the degree of severity of the practice of corruption in any country, genuine efforts must be made to assist people to recognize the significance of the quality of the human factor and develop it. Arguing from a human factor

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(HF) perspective, we conclude that the primary source of corporate corruption, accounting scandals, and bankruptcies is severe human factor decay (HFD). Attempts aimed at overcoming these problems that do not emphasize the development of positive HF will only lead to miserable failures and worsen the problem.

RÉSUMÉ

Aujourd'hui, l'industrie pétrolière en Afrique est sous les feux des projecteurs parce qu'elle est accusée de corruption par les instances chargées d'introduire plus de transparence dans la gestion des ressources pétrolières. Le présent article analyse la corruption relative à l'industrie pétrolière en Afrique et le rôle que le facteur humain peut jouer dans la lutte contre la corruption dans le secteur des ressources naturelles. Les auteurs de cet article soutiennent que la demande de transparence en tant que moyen de lutter contre ceux s'adonnent à la corruption en Afrique est bel et bien nécessaire, mais elle n'est pas suffisante par elle-même pour circonscrire le problème. Pour réussir à réduire l'incidence de la corruption dans les pays africains, il faut faire de véritables efforts pour aider les populations à reconnaître l'importance du facteur humain (FH) et en promouvoir le développement. Partant du point de vue du facteur humain, les auteurs arrivent à la conclusion que la source première de la corruption dans les grandes entreprises, des scandales dans les pratiques comptables et des faillites est la décadence du facteur humain (DFH). Tout effort visant à trouver des solutions à ces problèmes qui ne met pas l'accent sur le développement d'attitudes positives conduira à l'échec.

1. INTRODUCTION

In many respects, sub-Saharan Africa remains the world's poorest region. Notwithstanding the encouraging turnaround in economic performance[1] and a steady progression toward rules-based institutions in several countries, average living standards lag far behind those in the rest of the world. Almost half of sub-Saharan Africa's 690 million people live on less than 65 cents a day. As the world strives towards achieving the millennium development targets, Africa faces enormous challenges. According to the latest projections by the OECD/African Development Bank Economic Outlook for Africa 2003/04, only six countries are on track in achieving the first goal of halving the proportion of people living below $1 dollar per day by 2015 while the rest of the continent is receding. In light of weak and often faltering macroeconomic performance, vulnerability to negative climatic shocks, a devastating combination of poverty, continued civil conflict, and the effects of HIV/AIDS pandemic, realizing the millennium development goals in the years ahead will be a particularly challenging task in Africa (Jerome, 2004).

Sub-Saharan Africa is however in the midst of an oil boom. Over the last decade, the Atlantic Ocean off the coast of Western and Southern Africa has become one of the most promising oil exploration areas in the world. A convergence of interests between African governments, multinational oil companies, International Financial Institutions and Northern governments is propelling the rush to exploit Africa's oil reserves2 (Gary and Karl, 2003). Six countries in the region, namely; Nigeria, Angola, Gabon, Equatorial Guinea, São Tome, Cameroon and, more recently, Chad and Sudan have become key players in the world's energy stake and more are likely to join their ranks in the near future. However, the economic record and livid experience of mineral-exporting countries has generally been disappointing. Twelve of the world's 25 most mineral dependent states, and six of the most oil dependent, are classified by the World Bank as Highly Indebted Poor Countries. When taken as a group, all "rich" less developed countries dependent on oil exports have witnessed erosion in the living standards of their populations and many of them currently rank in the bottom one-third of the United Nations Human Development Index. Moreover, they are afflicted by a number of pathologies including poor economic growth, high poverty rates, high levels of corruption, and a low prevalence of democratization, all which act to create high risks for civil war. The new African oil boom is thus a moment of opportunity and great peril for countries beset by wide-scale poverty.

The oil industry in Africa is currently at the epicenter of corruption charges amidst international efforts to bring greater transparency to the continent's resource exploration. This is vividly illustrated in Angola, where an International Monetary Fund fiscal audit has been unable to account for hundreds of millions of dollars of oil revenues (International Monetary Fund, 2003). In Nigeria, Cameroon, and the Republic of the Congo, oil wealth has failed to generate development and has instead generated deep-seated corruption that retards growth. Sudan is marked by strife over oil. Africa's governments are only one part of a web of interests and relationships in the African oil boom. Other key actors determining the outcomes of this boom are foreign oil companies, International Financial Institutions like the World Bank and the International Monetary Fund, export credit agencies, and Northern governments. Western governments are often seen as directly supporting brutal dictators and corrupt bureaucracies, as they funnel millions of dollars in royalty payments to the regimes that control oil. Western multinationals are also widely accused of helping sustain graft and providing safe banking havens where ill-gotten wealth is repatriated. Conspicuously poor governance in Nigeria and Angola, as well as in second-tier, emergent producers such as São Tome and Principe, Equatorial Guinea, and Chad, undermines both national and regional stability.

In an effort to combat corruption in the oil industry, a push for transparency and liberalization has increased pressure on international oil operators to open their books. The Publish What You Pay campaign, sponsored by George Soros' Open Society Institute and Global Witness supported by over 130 NGOs, has called on international extraction companies to publish net taxes, fees, royalties, and other payments made so that civil society can more accurately assess the amount of money misappropriated and lobby for full transparency in local government spending. Underlining the effort, British Prime Minister Tony Blair announced the Extractive Industries Transparency Initiative, endorsed by a coalition of institutional investors, during the World Summit on Sustainable Development in Johannesburg in September 2002. Concurrently, civil-society organizations demand budget transparency and monitor spending on the national level. In the case of the Chad-Cameroon oil pipeline project, such initiatives integrate stakeholders on the national level and international institutions such as the World Bank, the latter being involved in financing the project. Observers hope that this new transparency will lessen corruption, and will enable citizens of these countries to have greater input in how their governments spend national oil wealth.

Against this background, this study appraises oil-related corruption in Africa and the role the human factor can play in lifting *the resource curse* and improving the developmental impact of oil in Africa. It argues that while transparency matters, except the human factor is given explicit recognition and its positive aspects developed, these efforts are likely to yield little dividends. Improving the benefits from oil production is not only an essential ingredient towards a more stable and sustainable world but equally an ethical mandate. It is structured in five sections. The analytical framework is presented in section 2 while section 3 presents documentary evidence on corruption in the oil industry in Africa. Section 4 appraises the recent push towards transparency in the oil industry and section 5 evaluates the role positive human factor can play in this endeavor.

2. ANALYTICAL FRAMEWORK

A recurring theme in the theoretical and empirical literature is that counter-intuitively, the discovery of a natural resource can lead to a decrease in the rate of economic growth and development. On average, countries with large endowment of natural resources perform worse than countries that are less well endowed. This phenomenon has been termed the *resource curse*. The failure of resource-led growth has been extensively investigated in the literature. The empirical regularity however owes much to Sachs and Warner (1995) which so far has presented the most comprehensive evidence. Based on standard cross-section growth regressions, they demonstrated that countries with exports concentrated in the natural resource sector in 1970, tended to grow relatively slowly, on average, by about 1 percent per year during the period 1970–1989. The results hold even after controlling for initial income levels and trade policies, among other variables. Variations of this basic result can be found in Leite and Weidman (1999) and Bravo-Ortega and De Gregorio (2001). Case studies presented in Aunty (1990) and Gelb (1988) also show the adverse effects of resource abundance on growth.

Understanding its causes has not been a straightforward task. Sachs and Warner (1995) and Elite and Weidman (1999) attempt to unravel the potential channel of causation, but without great success. More recently, Collier and Hoffler (2004) have shown that natural resources considerably increase the chances of civil conflict in a country. According to their estimates, the effect of natural resources on conflict is strong and non-linear. A country that has no natural resources faces a probability of civil conflict of 0.5 percent, whereas a country with natural resources-to-GDP share of 26 percent faces a probability of 23 percent. Sala-i- Martin and Subramanian (2003) use cross-section analysis to demonstrate that stunted institutional development—a catch-all for a range of related pathologies, including corruption, weak governance, rent seeking, and plunder—is a problem intrinsic to countries that own natural resources such as oil or minerals. The empirical evidence on causality remains inconclusive as these studies are mainly suggestive.

The theoretical literature has been much more successful at demonstrating causality. It identifies several channels of causation from natural resource abundance to lower growth. Natural resources generate rent which leads to rapacious rent-seeking (the voracity effect), whose adverse manifestation is felt through political economy effects (Lane and Tornell, 1999) and to increased corruption (Mauro, 1995; and Leite and Weidmann, 1999) which adversely affects long-run growth. Isham et al (2003) provides an excellent summary of the mechanisms of causation identified in the economics as well as in the political science literature. In the latter, emphasis is placed on the *rentier* effects, whereby large revenues from natural resources allow governments to mollify dissent and avoid accountability, insulating governments from pressures for institutional reform; and *anti-modernization* effects, whereby governments successfully thwart pressures for modernization and institutional reform because their "budgetary revenues are derived from a small workforce that deploys sophisticated technical skills that can only be acquired abroad."

Rentier states tend to be autonomous in the sense that natural resource rents allow them to be more detached and less accountable since they do not need to levy taxes. Mahdavy (1970), Yates (1996) and Karl (1996) use this argument to explain the lack of pressure from below for democratic change in the Middle East. As Wantchekon (1999) explains, the "state autonomy" argument lacks empirical support and predictive power. First, the lack of pressure from below for democratic change is common to most developing countries (Diamond, Linz, and Lipset, 1989). Thus petrostates are no exception. Second, throughout the Middle East and North Africa, in both oil and non-oil states, there are demands for social justice and political reforms. In Saudi Arabia for example, political opposition to the ruling family is fueled by the fact that prosperity of private citizens is dependent upon the acquisition of government wealth, with access to contracts, information, jobs in the public sector or infrastructure governed by family relations, friendship and religious affiliation (Okruhlik, 1999).

Natural resource ownership makes countries susceptible to *Dutch Disease*, the tendency for the real exchange rate to appreciate overtly in response to positive shocks that lead to a contraction of the tradable sector. The de-industrialization of a nation's economy occurs when the discovery and exploitation of a natural resource raises the value of that nation's currency, making manufactured goods less competitive with other nations, increasing imports and decreasing exports. The phenomenon was first observed in the Netherlands in the 1960s, when large reserves of natural gas were first exploited in the adjoining North Sea. The Netherlands, after its discovery of North Sea gas and oil, found itself plagued with growing unemployment and workforce disability (many of those who could not get jobs found disability benefits to be more generous than unemployment benefits.)

Theoretical exposition of the Dutch Disease can be found in Corden and Neary (1982) and Sachs and Warner (1995 and 2001). Sachs and Warner (2001), for example, provide a theoretical explanation of the Dutch Disease by extending the endogenous growth model developed in Matsuyama (1992). There are three sectors in the model: a traded manufacturing sector, a non-traded service sector, and a traded resource sector. Endogenous growth arises because employment in the manufacturing sector generates improvements in human capital as a by-product. When resources are discovered, it raises the level of income for a number of periods. Part of this income is spent on the non-traded service sector, drawing resources away from manufacturing; increased demand for manufactures is satisfied through imports. The reduction in manufacturing employment reduces the rate of growth, due to the attendant decrease in the accumulation of human capital. While the Dutch Disease model explains the sectoral shifts in the economy that could result from a natural resource boom, it however neglects the importance of political regimes in this process.

Oil-exporting countries differ considerably with respect to the relative importance of oil to their economies, the level of oil production and reserve base, the maturity of the oil industry, the ownership structure and control, taxation, the stage of development of the non-oil sector and the political structure and governance (Ojemeruaye, 2004). Thus, using such categories as political stability, party systems, legitimacy of government, transparency, stability and quality of policies, political freedom and role of civil society organizations, Eifert et al (2003) have classified oil-exporting countries into 5 main groups; mature democracies (Norway, the US state of Alaska, and the Canadian province of Alberta); factional democracies, (Venezuela, Ecuador, Colombia, and Nigeria 1979-1983 and post 1999); paternalistic autocracies (Saudi Arabia, Kuwait and Oman); predatory autocracy, (Iraq, Gabon, and Nigeria pre-1999); and reformist autocracy, (Indonesia, Libya, and Iran).

Apart from mature democracies, ensuring cautious use of oil income has been a continuous struggle. While traditional and modernizing autocracies have demonstrated their ability to sustain long decision horizons and implement developmental policies, resistance to transparency and the danger of oil-led spending and expenditure commitments becoming the major legitimizing force behind the state may pose risk to the long-term sustainability of their current development strategies. In contrast, little positive effect can be expected from the politically unstable, predatory autocracies, which typically have very short policy horizons and sometimes the characteristics of *roving bandit* regimes. Factional democracies, with weak political parties and highly personalized politics, present particular challenges because they lack a sufficiently effective political system to create a consensus among strong competing interests. Special attention will be needed to increase transparency and raise public awareness in these countries. And oil rent makes it more difficult to sustain a constituency in favor of sound, longer-run economic management because it weakens incentives for agents to support checks and balances that impinge on their individual plans to appropriate the rents. Thus technical solutions such as the establishment of oil stabilization funds and budgetary reforms to enhance transparency and efficiency in the use of oil rents will not work well unless constituencies can be developed in support of such measures.

In all the above discussions, the role of the human factor has largely been lacking. The reader may then ask: “What then is the HF?” According to Adjibolosoo (1995, p. 33):

> The human factor is the spectrum of personality characteristics and other dimensions of human performance that enable social, economic and political institutions to function and remain functional, over time. Such dimensions sustain the workings and application of the rule of law, political harmony, a disciplined labor force, just legal systems, respect for human dignity and the sanctity of life, social welfare, and so on. As is often the case, no social, economic or political institutions can function effectively without being upheld by a network of committed persons who stand firmly by them. Such persons must strongly believe in and continually affirm the ideals of society.

As is clear from the definition of the HF it has both positive and negative aspects. It has hardly featured. This paper intends to fill this void in the literature. The discussion on the HF is presented in section 5.

3. EVIDENCE OF CORRUPTION IN THE AFRICAN OIL INDUSTRY

Oil exploration and exploitation in Africa has been associated with violence, dictatorships, and genocide. Intense conflicts are direct results of the pervasive mismanagement in the oil industry in Africa. In Sudan, the war for control of oil resources in the south of the country has lasted for more than 18 years, causing the deaths of more than 2 million people with 3 million missing (*OilWatch*, 2001). Rebels in the south, insurgents in Darfur in the west, and opposition supporters in the east are unhappy that the benefits of the country's oil industry, which produces 300,000 barrels a day, have hardly been felt outside Khartoum, the capital. In Angola, the civil war has killed thousands of innocent victims. The political fractions of the country, driven by the control over mining and oil resources, have caused the death and mutilation of more than 1 million people (Renner, 2002). In Congo, a conflict that began in 1998 has been sustained by the desire of armed factions to control large reserves of gold, diamonds, copper, and other minerals. In Algeria, during the decades when the French lent their support to the *pieds-noirs*, it is estimated that 8000 villages were destroyed and more than a million people were killed (*Oilwatch*, 2001). Similar cases of oil and gas related strife could be found in countries such as Egypt, Gabon, and Equatorial Guinea. The trend is that oil wealth of African countries has been largely used to prop up undemocratic regimes and line the pockets of the elite. Unbridled corruption and environmental degradation have become the norm.

Examples abound of how African countries have mismanaged oil revenues, often with disastrous socio-economic and political implications. This has been made possible with the effective collaboration of the owners of multinational oil companies who make substantial payments to government officials and their families in order to secure illicit business advantages. The corruption saga is a network involving multinational oil corporations (strongly but tacitly, supported by western governments) and the ruling cabals in the oil producing countries. Oil companies have become active players in this illicit rendezvous so as to maximize return from their exploration activities. A worrisome dimension is the 'anti-local community' approaches now being adopted by oil companies to silence agitations and calls for accountability, transparency, and improved environmental responsibility. In this section some documentary evidence on oil related corruption in Angola, Equatorial Guinea, and Nigeria and the non-transparent business ethics of oil companies operating in these countries is presented. These three economies constitute Sub-Saharan Africa's main producers. Furthermore, oil has an overwhelming and perverse influence on these economies as indicated in Table 1 which presents the composition of oil in the GDP, exports, and government revenue in some African countries.

Table 1
Composition of oil in the GDP, Exports and Government Revenue in Some African Economies (2002)

Country	**% of GDP**	**% of Exports**	**% of Government Revenue**
Angola	45	90	90
Cameroon	4.9	60	20
Congo-Brazzaville	67	94	80
Equatorial Guinea	86	90	62
Gabon	73	81	60
Nigeria	40	95	83

Source: Adapted from Gary and Karl (2003, p. 11).

However, there are budding reform efforts under way in both Nigeria and Angola, mandated by the leadership in their respective countries that purportedly seek to establish more transparent fiscal practices. Neither has yet produced concrete irreversible achievements nor guaranteed success.

3.1. Angola

Angola is the second largest oil producer in sub-Saharan Africa. With reserves of over seven billion barrels reputed to be larger than those of Kuwait, Angola is perhaps the most successful non-OPEC producer in Africa. However, its human development indicators have been dismal. Angola ranked 161 out of 173 in the United Nation's Human Development Index for 2003. Average life expectancy is 45 years, 63 percent of Angolans live below the poverty line and 63 percent are without access to safe water.

Proceeds from oil enabled the government to pursue vigorously its conflict with rebel National Union for the Total Independence of Angola (UNITA) until April 2002 when the war came to an end after Jonas Savimbi was killed. Efforts by international financial institutions to monitor Angola's oil revenues had largely been unsuccessful due to inability or unwillingness of governments to provide adequate information. Aid agencies estimate that billions of dollars in royalty payments have been stolen from the public coffers by corrupt government officials. The London-based corporate watchdog Global Witness estimated that of the $5 billion the Angolan government receives in oil revenues every year, more than US$1 billion goes missing (Global Policy Forum, 2003). Human Rights Watch (2004) reveals that more than four billion dollars in state oil revenue disappeared from Angolan government coffers from 1997-2002, roughly equal to the entire sum the government spent on all social programs in the same period.

Political and business elites in France, Angola, and elsewhere exploited the country's civil war to siphon off oil revenues. The government continues to seek oil-backed loans at high rates of interest that are financed through opaque and unaccountable offshore structures. A recent report by KPMG (2004) which was engaged by the National Bank of Angola (BNA) to conduct a diagnostic study of the upstream petroleum sector and review the transparency of government revenue produced by state-owned oil company Sonangol and the nation's petroleum industry reveals serious defects in Angola's oil revenue management. The report indicates among others that the government could not adequately account for billions of dollars of revenues; the state-owned oil company Sonangol did not follow Decree 30/95 that requires all oil revenue to be deposited in the central bank, passing over two billion dollars through other accounts in 2000; Ministry of Finance records were unreliable because in many cases they were based on paper transactions rather than actual transfers; and the government lacked or failed to provide sufficient information to allow KPMG to reconcile hundreds of millions of dollars in discrepancies. The payment of bribes or commissions by foreign oil companies, sometimes using public money from western countries to secure lucrative oil contracts is also common. Shell

BP, a multinational oil company was nearly kicked out of Angola for disclosing that it had paid a $111m signature bonus to the government in 2001 (The Guardian, Tuesday, June 17, 2003).

Evidence has emerged in investigations being conducted in France and Switzerland about millions of dollars being paid to the country's President, Eduardo dos Santos as bribes. It is no coincidence that he is Angola's richest citizen. On March 17, 2003 a corruption trial that continue to cause tension between France and Angola, which the French media colloquially refer to as "Angolagate." began in Paris. It involves thirty-seven defendants who were accused of obtaining approximately U.S. $430 million from Elf Aquitaine (now privatized and merged with TotalFina) for "personal enrichment and political kickbacks during the late 1980s and early 1990s.3 Among the defendants were former French interior minister, Charles Pasqua, who allegedly supported questionable arms sales to Angola in 1993 and 1994 and Loik Le Floch Prigent, the former president of Elf Aquitaine charged with presiding over the commission payments on oil deals. André Tarallo, the former head of Elf-Gabon was also alleged to have channeled tens of millions of dollars in "commissions and "subscriptions" to heads of state in Angola, Cameroon, Congo-Brazzaville, and Gabon in exchange for influence and lucrative oil deals. They admitted that intermediaries were used to keep the system opaque. French courts convicted Tarallo of corruption for misusing Elf's funds and sentenced him to five years imprisonment and •2 million fine on November 12, 2003. Tarallo maintained that bribing government officials in Africa was not a misuse of funds since it led to business deals for Elf.4

3.2. Equatorial Guinea

Mr Obiang's quarter-century-old regime has become one of sub-Saharan Africa's most authoritarian and enduring regimes in spite of an alleged plot by mercenaries to overthrow it in 2004. It is enmeshed in human rights abuses, high handedness and corruption. A recent report published by the United States Senate's permanent subcommittee on investigations reported by *AfricaFocus Bulletin* found that between 1995 and 2004, Riggs Bank in America administered more than 60 accounts for the government of Equatorial Guinea, government officials, or their family members. By 2003, the Equatorial Guinea's accounts represented the largest deposits at Riggs Bank, with aggregate deposits ranging from $400 to $700 million at a time.

The Subcommittee investigation found, for example, that Riggs opened multiple personal accounts for the President of Equatorial Guinea, his wife, and other relatives; helped establish shell offshore corporations for the President and his sons; and over a three-year period, from 2000 to 2002, facilitated nearly

$13 million in cash deposits into Riggs accounts controlled by the President and his wife. On two of those occasions, Riggs accepted without due diligence $3 million in cash deposits for an account opened in the name of the Equatorial Guinea President's offshore shell corporation, Otong, S.A. In addition, Riggs opened an account for the Equatorial Guinea government to receive funds from oil companies doing business in Equatorial Guinea, under terms allowing withdrawals with two signatures, one from the Equatorial Guinea President and the other from either his son, the Equatorial Guinea Minister of Mines, or his nephew, the Equatorial Guinea Secretary of State for Treasury and Budget. Riggs subsequently allowed wire transfers withdrawing more than $35 million from the Equatorial Guinea government account, wiring the funds to two companies which were unknown to the bank and had accounts in jurisdictions with bank secrecy laws (*AfricaFocus Bulletin,* July 28, 2004).

Oil companies entered into joint ventures with businesses partly or wholly owned by members of the regime and made "substantial payments" to government officials, family members or entities controlled by them. ExxonMobil, for example, established an oil distribution business in Equatorial Guinea which is 85 percent owned by ExxonMobil and 15 percent by Abayak S.A., a company controlled by the President.

3.3. Nigeria

Despite its bountiful oil resources (ranking tenth in oil and gas reserves and the sixth biggest exporter in the world) and a cumulative revenue estimated at about US$350 billion over a 35-year period (Sala-I-Martin and Subramanian, 2003), Nigeria's economic performance has been startlingly poor. Between 1970 and 2000, the number of Nigerians living in poverty on less than a dollar a day had risen to 70 percent from 36 percent, and inequality widened considerably. Per capita income has suffered significant erosion since the peak in the early 1970s that occurred, not coincidentally, when oil prices were at a historic high from $1,113 in 1974 to $780 in 1980 and $300 in 2002 (World Bank, 2004). Several years of economic mismanagement and corruption restricted economic growth, leaving Nigeria's GDP per capita under $300 and placing the nation amongst the 20 poorest nations in the world. Arguments over the distribution of oil wealth precipitated the civil war in 1967 and 1968, following the failed secession of Biafra. The Biafran Civil War, contested largely by Ibo secessionists and Nigerian federalists, was one of the bloodiest disputes over the control of oil revenues experienced in human history where there were two to three million casualties, mainly civilian deaths resulting from disease and starvation created by the conditions of war.

A World Bank report contained in the revenue fact sheet of the Organization of Petroleum Exporting Countries (OPEC) has disclosed that about 80 per cent of Nigeria's oil and natural gas revenues accrues to just one per cent of the country's population. The other 99 per cent of the population receive the remaining 20 per cent of the oil and gas revenues, leaving Nigeria with the second lowest per capita oil export earnings put at $212 (₦28,408) per person in 2004. The oil boom is also largely responsible for the massive capital flight. UNIDO (2004) estimated that by 1999, Nigeria had an estimated $107 of its private wealth held abroad. This represents about 70 percent of the total private wealth in Nigeria.

Corruption has been the bane of Nigeria's development, eroding any beneficial impact of the oil wealth. It has become endemic in recent years, with the oil boom and busts distorting the incentives structure. Many construction projects, financed by the oil boom, were ruined through the use of inferior cement. Buildings would collapse and roads would wash away because of the use of poor products. Although Nigeria earns billions of dollars every year from exporting crude oil, its domestic refineries have been laid waste by corruption and mismanagement and it relies on expensive imports of refined fuels. It may take 146 years for Nigeria to wipe out corruption from its system going by the latest report by Transparency International (TI) Corruption Perceptions Index 2004 which ranked the country as the third most corrupt country in the world after Bangladesh and Haiti. Anecdotal evidence on oil related corruption in Nigeria can be found in media sources and proceedings of various tribunals set up to investigate cases of alleged financial impropriety on the part of government officials. These include the recent US$4 billion looted money by the Abacha regime in which the UK Financial Services Authority indicted 15 British banks (*Financial Times*, London, October 20 and 21, 2000) and the 'missing' $12.2 billion excess oil windfalls during Ibrahim Babangida's regime which is yet to be accounted for (*Newswatch*, January 16, 1995). A former Nigerian President was alleged to have awarded a $1 billion oil bloc in the nation's most prized oil-producing zone to his wife's hairdresser (*Business Times*, South Africa, October 31, 2004).

Ethnic conflicts around oil resources in the Niger Delta are a continued source of concern. Poor corporate relations with indigenous communities, vandalism of oil infrastructure, severe ecological damage, and personal security problems throughout the Niger Delta oil-producing region continue to plague Nigeria's oil sector. The Ijaw, Ogoni, and other communities living in the oil-rich Niger Delta are up in arms against misrule from Abuja, and the oil companies from whom they demand a bigger share of the oil wealth. These localized conflicts are now much better financed through increasingly highly organized theft of oil from the region. Oil companies are feeling the backlash5 from militants and other groups, which increasingly use sophisticated equipment to siphon oil from pipelines. The incidence of crude oil theft is currently estimated at over 200,000 barrels per day, about 15 percent of total exports with state officials accusing faceless highly placed Nigerians of being the masterminds.

There have been many clear examples of corporate influence in the Nigerian military repressing oil producing communities. The military have been accused of thousands of killings, house/village burnings, intimidating people and torture. Ranging from Shell's involvement in the killing of Ken Saro-Wiwa to Chevron-marked helicopters carrying Nigerian military that opened fire upon protesters, oil corporations in Nigeria are facing harsh criticisms for the way they have been conducting business in Nigeria.

4. THE GLOBAL PUSH TOWARDS TRANSPARENCY

Since 1999, the international community has increasingly recognized the need for transparency in natural resource rich states. In recent years, there is a push towards transparency as a key requirement for sterilizing oils propensity to harm developing countries. It is widely accepted that greater transparency over revenue flows between oil, gas and mining companies and resource-rich developing country governments is necessary to enhance accountability and to curb corruption. Companies and governments of both developed and developing worlds have made various commitments to transparency. Several international initiatives have been launched to address this issue. In what follows, we briefly review some of these initiatives.

4.1. The Extractive Industries Transparency Initiative (EITI)

The Extractive Industries Transparency Initiative (EITI) was launched by U.K. Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg, South Africa on September 2, 2002. Essentially, the EITI is a voluntary initiative that brings together government, corporate and civil society representatives to improve transparency in the extractive industry. Using standardized reporting templates, companies would report what they pay governments and state agencies, including state-owned oil companies and provincial governments. State oil companies would also report what they receive from companies and pay governments, while governments are to report revenues received from private sector and state-owned natural resource companies. This architecture is intended to create a web of double-entry checks. The initiative has broad support from multinational and national companies, industry organizations, governments, NGOs, and multilateral institutions. As of June 17, 2003 when a large formal meeting to endorse the process took place, Timor-Leste, Azerbaijan, Ghana, Trinidad and Tobago, Indonesia, and Nigeria agreed and have said they would implement and pilot the initiative (Department for International Development, 2003). The strength of the EITI is its broadening of the scope of reporting coverage to include state oil companies and government. Its weakness is that it is a voluntary compact.

4.2. The Publish What You Pay Campaign (PWYP)

The extractive companies are best placed to trigger change by committing to publishing their revenues and payments to states. In the process, they can help generate more accountable government, an environment more attractive to appropriate investment, and an improved development outlook. Recognizing this, philanthropist George Soros and his Open Society Institute have been working endlessly to address the problem of corruption connected with natural resource extraction through an international *Publish What You Pay Campaign*.

The Publish What You Pay Campaign is a coalition of over 250 NGOs worldwide pressing governments to require publicly traded natural resource extraction to disclose net payments, including taxes, royalties, fees and other transactions with governments and/or public sector entities for every country in which they operate. It calls for the mandatory disclosure of the payments made by oil, gas, and mining companies to all governments for the extraction of natural resources. The campaign was founded by Global Witness, CAFOD, Oxfam, Save the Children UK, Transparency International UK, and George Soros, Chairman of the Open Society Institute. This initiative proposes legislation requiring publicly listed oil and mining companies to disclose information about payments to government, as a condition for stock exchange listing. Relevant payments that would have to be disclosed include tax payments, royalty and license fees, revenue sharing and payments-in-kind, forward sales of future revenues, and commercial transactions with government and public sector entities.

The PWYP campaign already has the support of over 130 groups from all around the world. Several large natural resource extraction companies, including BP, Shell, and Newmont Mining, have expressed positive views about it. In addition, a group of major European and American asset management funds representing $3 trillion has endorsed greater company transparency regard. There are now several Publish What You Pay national NGO coalitions around the world, including in Azerbaijan, Chad, Congo Brazzaville, France, Kazakhstan, The Netherlands, Nigeria, the United States and the United Kingdom. Regrettably, U.S. oil companies have resisted PWYP, claiming that corruption is a governmental problem. PWYP is a mandatory disclosure measure targeted at publicly traded natural resource companies. It does not address non-traded companies or state-owned natural resource companies; nor does it address governments themselves.

4.3. The G-8 Declaration

On June 2, 2003, the G-8 issued a declaration in Evian6 on Fighting Corruption and Improving Transparency. The G-8 member states committed themselves to press countries to be more transparent; guide bilateral aid to governments that are committed to improve transparency, good governance, and rule of law; encourage publication of IMF Article IV Staff Reports; participate in reviews under the IMF Code of Good Practices for Fiscal Transparency; and incorporate anti-corruption plans into Poverty Reduction Strategy Papers (PRSPs).

4.4. Other Recent Initiates

Other recent developments include the World Bank's groundbreaking handling of financing of the Chad–Cameroon oil pipeline, a $3.7 billion underground oil pipeline that stretches 650 miles from oil fields in landlocked Chad through neighboring Cameroon and out into the Atlantic Ocean, which it has made conditional on Chad's compliance with strict accounting and spending management. Under the agreement, most of the government's share of oil income, expected to average $100 million a year—and increasing Chad's annual revenue by 40 percent—will be kept in a London escrow account. The government has passed a law that stipulates that 80 percent of the income will be used to finance education, health programs, infrastructure, water management, and rural development. Ten percent will go to a fund to benefit future generations and 5 percent for development in the Doba oil-field area. A nine-member Revenue Management College made up of Chadians from civil society, parliament, the Supreme Court, and government must approve disbursement of the funds. Similarly, Azerbaijan and Kazakhstan have established national oil stabilization funds that aggregate much of their oil revenues at the IMF's prompting.

4.5. Some Observations

Botswana stands out as an outstanding success story in the management of windfalls. At independence in 1966, Botswana one of the poorest countries of the world – it is now classified as an upper-middle income developing economy. It has had the highest rate of annual growth of any country in the world—an average of 12.3 per cent GDP per capita over 20 of the 35 years since the country's diamond cache was discovered. By 2004, GDP per capita stood at

$4,076—11 times that of Nigeria. This meteoric rise was fuelled by the discovery in 1967 of profitable deposits of diamonds, which triggered a process of structural change from an economy dependent on low productivity agriculture to an economy where mining and services became the dominant sectors. This has been achieved despite the presence of initial adverse conditions (e.g., minimal investment and high inequality) shared by post-colonial African countries that have suffered from *the resource curse*. The country is now the biggest producer of diamonds in the world. Diamonds account for more than 65 per cent of all government revenue and there is great transparency over this diamond income.

According to Transparency International's 2004 Global Corruption Report, Botswana is the most transparent country on the African continent. Transparency in tax and royalty receipts has put the onus on the government to widen the circle of beneficiaries beyond public officials, politicians and the diamond industry's narrow employment base. It is clear that the country's economic success derives more from efficient and transparent management of its diamond revenues than from their mere presence. UNIDO (2004) attributes a good part of the credit for its performance to "the wise management of natural resources and good governance, enabling political and economic stability to prevail." The government of Botswana transformed rents into savings and obtaining a reasonable rate of returns on these savings by insisting upon rigorous project appraisal. Most of the surplus money was invested offshore while a small proportion was transferred to domestic private investors through the banking system.

Norway has been pumping massive quantities of crude from the North Sea since 1971. Currently, Norway is the world's third-largest oil exporter, behind only Saudi Arabia and Russia, and the seventh-largest oil producer. Norway viewed oil revenues as a temporary, collectively owned windfall that, instead of spurring consumption today, can be used to insulate the country from the storms of the global economy and provide a thick, goose-down cushion for the distant day when the oil wells run dry. In 1990, the nation's parliament set up the Petroleum Fund of Norway to function as a fiscal shock absorber. Run under the auspices of the country's Central Bank, the fund, like the Alaska Fund, converts petrodollars into stocks and bonds. But instead of paying dividends, it uses revenues and appreciation to ensure the equitable distribution of wealth across generations. Cash flow from the government's petroleum activities—the state owns 81 percent of the aptly named Statoil—is funneled into the fund. Last year, the total came to 91.9 billion kroner (about $14 billion). The fund then hires external managers to invest, generally using low-cost indexing strategies. It's conservatively managed—more bonds than stocks, and investments divided equally between Europe and the rest of the world (Gross, 2004).

5. THE QUALITY OF THE HF IN MINIMIZING CORRUPTION

There are two things one must know about institutions: humans create them and humans lead and manage them. As a result, their degree of success or failure is a reflection of the quality of the HF of people who run them (Adjibolosoo, 2005). Since institutions have no life of their own, they take the life of those who operate them.

Problem-solving zealots make the mistake of thinking that once laws are made and implemented, the problems will be zapped away instantaneously. Based on this faulty thinking, people who hold this belief call for more laws and conventions. They expect people to obey them. As a result people end up with countless laws that are frequently conflicting. Similarly, we also have numerous international conventions that are often window-dressings to please humans rather than be effective solutions to problems. Such international laws and globalized treaties relate to human rights in variegated forms. The rules and policies drawn from these conventions and treaties are aimed at regulating and forcing human attitudes and actions that are often inimical to the preservation of liberty and the improvement of the quality of life. Most people ignore the idea that the law is for the dishonest and lawless (See *I Timothy* 1: 5-11). Honest people obey and live by the rule of law. Dishonest and rebellious people scarcely do. The law is only good and useful when it is rightly applied and enforced appropriately. In places where people do not have a clue as to what is happening around them, there are few honest people to see to it that those who practice acts of corruption are apprehended, tried, and sentenced accordingly.

The problem is that people cannot be made honest through regulations unless they already are! A citizen can neither be accountable nor responsible unless these qualities are already part of the person. In other words, unless these qualities are already part of the individual's positive HF, there is no way he or she can exercise them in attitudes and actions. Similarly, one cannot practice integrity and exercise trustworthiness unless he or she is rich in these qualities. Those who are forced by the law to be virtuous when they are not will temporarily put on masks of deceitfulness and fake their behavior. In the long-run they will adjust and return to their bad attitudes and actions. In most cases the behavioral practices that are resuscitated later will emerge with a greater vengeance. The individual's subsequent unethical practices are usually worse of than previously. This behavioral practice is a learned rather than a biological way of life. Getting dirty again is a reality most people without positive HF find difficult to understand. It is a "funny thing about the world we live in: The minute you clean something it starts to get dirty again" (ECOLAB advert in *The Wall Street Journal*, Monday, January 13, 2003, p. B10).

The future of our success in dealing with excessive corruption lies in the hands of Africa's youth. These individuals will in approximately one generation's time either minimize or intensify the rent-seeking practice of corruption in Africa. The success of the present generation in helping members of subsequent generations to hone their positive HF is one of the best and sure guarantees to win the fight against corruption in the future. However, if members of today's generation fail in this regard as did their predecessors, this problem will never be minimized.

The call for transparency in dealing with those who are engaged in corrupt practices in African countries is necessary, but in itself not sufficient for minimizing this problem. To be successful in reducing the degree of severity of the practice of corruption in any country, genuine efforts must be made to assist people to recognize the significance of the quality of the human factor and develop it. Without being intentional about HF development in education, the desire to make people become more transparent will be a dream rather than a reality. Wisdom gleaned from commonsense and basic intuition dictates that unless there are people who themselves possess integrity so they can effectively hold others responsible for immoral and unethical actions, it will be difficult to get anybody to be transparent, especially those individuals who lack this quality in the inner person. People who are bankrupt of the positive HF quality will do everything possible to engage in corrupt practices regardless of the laws and conventions to enforce transparency.

For centuries people have tried many different ways to enforce transparency, responsibility, accountability, trustworthiness, integrity, and other aspects of the positive HF. In most cases they were imprisoned, hanged, or shot to death by military dictators who seized power through *coups d'etat*. The evidence in this regard is pervasive in Africa, Latin America, as well as other parts of the world. For example, leaders of civilian and military administrations alike were shot dead in Burkina Faso, Ghana, Liberia, Libya, Nigeria, Uganda, Togo, Côte d'Ivoire, and The People's Republic of the Congo. Others have been jailed for life for having engaged in crimes of financial mismanagement in their own countries. Unfortunately, these solutions to the problem of systemic corruption in African countries have not made leaders in these nations become more transparent and exercise good judgment, sound ethics, or higher degrees of integrity, trust, responsibility, accountability, and trustworthiness.

From a HF perspective the relentless call for transparency among African leaders is nothing more than another false start unless those who continue to make these calls assist Africans to pursue educational programs aimed at developing the positive HF. Making leaders and their subordinates in African countries more transparent is not an agenda that can yield positive results without doing the necessary legwork required to develop the positive HF factor. Since this task is not a challenge easily accomplished, those who consider themselves to be *the leading corruption busters* are scarcely ever committed to getting their hands dirty in this regard.

It is easier to critique others and make recommendations to them as to what they must do to solve problems of excessive corruption. It is quite another ballgame to actually take the necessary steps to minimize the degree of intensity of the problem. If leaders of organizations committed to busting excessive corruption in African countries cannot put their financial resources, efforts, energies, and time (FEET) to promoting education programs that can assist Africans to minimize the incidence of corruption, they have no viable solutions to offer (Adjibolosoo, 2005).

Africa's corruption problems are like the structure of an onion. Once you peel off the top layer of shades of corruption, another fresh inner layer emerges. Layer after layer produces yet more corruption, remove one and another appears *ad infinitum*. At the core of each of these problems is severe human factor decay (HFD). Those who are sincerely interested in solving the problems of embezzlement, misappropriation, misapplication, and mismanagement can delay the time of solution by dealing only with the set of symptomatic layers of the removable top peels. This permits the problem to snowball and remain unsolved in the long-term. Alternatively, they can reach out to the core of the problem, severe HFD, and begin to tackle it at its roots. Any successes achieved will lead to the weathering away of the other layers of the problem of corruption long before they sprout and bloom.

Our failures in Africa have been captured in various sobering and disheartening ways as follow:

> We … have failed in Africa; along with everybody else … We have not fully understood the problems. We have not identified the priorities. We have not always designed our projects to fit … (Ernest Stern, World Bank Senior Vice-President, 1985; Quoted in Timberlake, 1985, pp. 7-9).

Djibril Diallo of Senegal, spokesman of the UN Office for Emergency Operations in Africa, puts it more bluntly as follows:

> Africa's biggest problem is too many people going around the continent with solutions to problems they don't understand. Many of these solutions are half-baked. But this is not to put all

> the blame on the North. Some Africans don't understand African problems (Quoted in Timberlake, 1985, pp. 7-9).

Stephen Rosenfeld, a *Washington Post* Columnist, observes correctly:

> It is hard to look at black Africa without feeling that something has gone terribly wrong. It is not just the spectacle of suffering that troubles us. It is the sense that we [of the West] who thought we knew how to help these people did not know well enough, although we acted as we did … our advice has been deeply flawed (Quoted in Timberlake, 1985, pp. 7-9).

Africa's helpers have done it wrong most of the time. Yet, they continue to engage in activities as if nothing has gone wrong. It is always business as usual.

Insanity is doing things the same way over and over again and yet expecting a different result. We have tried many plans, policies, programs, and projects (4Ps Portfolio) with the intent of dealing with the social, economic, political, and educational (SEPE) problems in Africa for decades. Our track record of achievements has revealed a catalogue of dismal failures (Adjibolosoo, 2005). Is it not about time we change our strategies and do something more promising by developing the positive HF? Let the reader judge!

Arguing from a human factor perspective, we conclude that the primary source of corporate accounting scandals, corruption in government, and embezzlement in Africa's oil industry is severe HFD. Attempts aimed at overcoming these problems that do not emphasize the development of the positive HF will only lead to miserable failures and worsen the problem. Whether people are successful in minimizing the degree of severity of system-wide corrupt practices depends on their ability to balance the positive and negative aspects of the HF. If, for example, the positive aspects of the HF outweigh its negative aspects, it is highly likely that the people will be successful in minimizing the prevalence of corrupt practices in their nation. Contrariwise, if the negative aspect of the HF overwhelms the positive, it is impossible to deal successfully with the problem of corruption. The quality of the HF is therefore important to any attempts aimed at dealing effectively with corruption in any nations.

Effective leadership and management function is performed under the guidance of principle-centeredness. The pursuit of principle-centeredness leads to greater effectiveness. When HF development programs are pursued and accomplished, the leadership function will be more easily accomplished in African countries with excellent results. The HF development education program will produce principle-centered leaders and managers. This is the route Africans and their external advisors and financiers must take if their purpose is to be successful in minimizing the intensity of corrupt practices.

Leaders of international organizations, non-governmental (NGOs), governmental organizations (GOs), governments, and civil society organizations have had and continue to have good hearts in terms of their desire to assist the peoples of Africa. The various applications of their FEET are, however, necessary but not sufficient. To improve their effectiveness they must get their hands dirty by complementing the existing humanitarian and relief efforts with human factor-based education programs. Without these their 4Ps Portfolio will enslave rather than redeem the afflicted, suffering, and struggling peoples of Africa (See Adjibolosoo, 1999).

There are neither shortcuts nor quick fixes to dealing with the dragon of corruption. Glaringly missing from among all the solutions people have tried in their attempts to deal with corruption is a program aimed at developing the positive HF. Yet, until the positive HF is developed, it is impossible to minimize the practice of system-wide corruption in African countries. Even more crucial is the trust aspect of the positive HF. As Fukuyama (1995) correctly notes the low level of trust in the developing countries makes it even more difficult to make progress. One excellent way to overcome the problem of low levels of trust in African countries is to assist people to improve the quality of their own HF. Yet this is the road leaders of African countries and their external helpers *refuse* to take.

NOTES

1. 17 of the 48 Sub-Saharan Countries have grown at an average of 4% or more for the past decade and several governments are becoming more transparent.

2. Following the terrorist attacks of September 11, 2001, oil supply disruptions in Venezuela in 2002 and 2003, and the U.S. armed intervention in Iraq in 2003, U.S. policy has increasingly emphasized diversification of U.S. energy supplies, especially from sources outside the Persian Gulf. Between 2004 and 2010, according to Cambridge Energy Research Associates, West and Central Africa, will add 2 to 3 million barrels per day to world production, accounting for one in five new barrels of oil—that is, about 20 percent of new production capacity worldwide.

3. Martin Arnold, Rebecca Cockburn, and Robert Graham, (2003) “The Elf Affair-Who’s Who.” *Financial Times*, London, April 15, 2003.

4. Robert Graham, “French Court Jails Elf Officials for Corruption.” *Financial Times*, November 13, 2003.

5. The Nigerian subsidiary of San Ramon, California-based Chevron Texaco Corporation is among the companies hit hardest by Nigeria's worsening oil-related violence, suffering an estimated US$750 million in sabotage to its wells, pipelines and other facilities since March 2003. Royal Dutch/Shell, Nigeria's largest oil operation producing half of the 2.5 million barrels Nigeria's exports daily, is also reeling in agony. A confidential 93-page security report commissioned by Shell in December 2003 warns that mounting attacks by criminals and ethnic militants could force the oil giant to abandon its onshore operations in the delta by 2008. See *News 24. com*, Nigeria's oil crisis 29/07/2004http://www.news24.com/News24/Africa/Features/0,,2-11-37_1565082,00.html (Accessed 02/11/04).

6. For details, see "Fighting Corruption and Improving Transparency." A G-8 Declaration, Evian, June 2, 2003, preamble.

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