[POLICY BRIEF]

Energy and Development: Lessons from Nigeria

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Nigeria, and in particular the Niger Delta, have all the components of failed development: deep poverty, corruption and neglect, disenfranchised ethnic minorities, self-serving multinational oil companies, environmental degradation, destruction of livelihoods, gang violence, civil strife, and despair. During the 2007 elections, EU election monitors did not dare venture into the Delta. European (and American) oil companies still do conduct business in the region, for now willing to pay rising security premiums for extraction of the sweet, light oil of the Niger Delta.

This policy brief examines how Nigeria's conflict over energy has affected development and how the European Union has attempted to tackle the development-energy linkage. It highlights the main elements of Nigeria's "oil curse" and how European Union policies have been split between support for a stable, democratic and economically advancing Nigeria on the one hand, and for secure energy supplies on the other hand. Leading up to 2020 the nexus between oil, development and European security policies in Nigeria will become more difficult to manage; a gear change in EU engagement is required.

The analysis of the causes of underdevelopment in Nigeria—including the nexus between governance, corruption, violence and the workings of the oil industry—has become more refined. But without major changes to its policies, the EU is unlikely to be making a positive impact to energy-development-governance linkages in Nigeria in 2020.

Worsening Development Indicators

The features of the oil (or resource) curse are now well understood: unresponsive governments, widespread corruption and even theft, bumpy economic development, and conflict. Nigeria, among the top ten oil producers globally and almost entirely dependent on oil for its revenues, suffers from most of these ills.

Nigeria provides a clear example of how oil magnifies graft and nepotism. Since independence, Nigerian leaders have stolen or squandered as much as USD 380 billion, according to Nuhu Ribadu, the now dismissed head of the Economic and Financial Crimes Commission (EFCC), an independent Nigerian state institution that investigates and prosecutes cases of corruption. Most infamous in this respect was the dictator Sani Abacha, but the practice pre-dates him and is still very much engrained in Nigerian public life. According to World Bank sources, approximately 80 per cent of oil revenues are concentrated in the hands of 1 per cent of the population, and some 70 per cent of Nigerian private wealth is held abroad.[1] High-ranking military officials, politicians and busi-

1. Cited in Lubeck, Paul M, Michael J. Watts and Ronnie Lipschutz (2007). "Convergent Interests: US Energy Security and the "Securing" of Nigerian Democracy" *International Policy Report,* Washington: Center for International Policy, p. 7.

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nessmen have even been involved in large-scale thefts from oil installations.

Corruption and looting has made losing elections increasingly expensive for political elites: it could imply facing criminal charges and having to part with vast wealth. The Nigerian electoral administration INEC was, according to most observers, designed only to fail in its ostensible task of ensuring free and fair elections.[2] The April 2007 elections were subject to higher levels of fraud than those of 2003. Since the elections, President Umaru Yar'Adua has obliged his potent but corrupt backers by, for example, removing the widely respected head of EFCC on procedural grounds. Oil wealth in Nigeria reinforces patterns inherited from the colonial period: a state structure with minimal legitimacy and shallow roots in society.

Corruption and looting are not simply aspects of how the Nigerian state bureaucracy works: they are the main activity of the state, leaving even the most basic education and health care in tatters. Corruption is directly connected not only to electoral malpractices, but also to a poorly administered system of justice, lack of state transparency, and widespread human rights abuses. In 2007–2008, Nigeria ranked 158th of 177 states on the UNDP Human Development Index (HDI). Since 1975, sub-Saharan Africa has ranked lower than any other region on the HDI; Nigeria has fared even worse than the regional average. In the mid 2000s, almost 30 per cent of young Nigerian children were underweight, more than half of the population lacked access to clean water, and life expectancy was just 46.5 years.[3]

Oil wealth has not only failed to achieve development in Nigeria, it has also led to greater impoverishment, in particular in the Delta region. The reason is environmental degradation. International oil companies continue to flare gas to separate it from the crude oil. This process wastes gas that could earn Nigeria an estimated USD 500 million yearly, and is a main source of greenhouse gas emissions in sub-Saharan Africa. Gas flaring is reportedly responsible for decreased yields in farming and fishing and increased incidences of certain respiratory and skin diseases, as well as falling life expectancy in the region.[4] Oil spills—due to corrosion of pipelines and tankers, sabotage, and oil production operations— have similar effects on health and livelihoods.

One of the more perplexing aspects of the "oil curse" is that oil producing countries quite often suffer from severe shortages of fuel and electricity. Nigeria is a prime example of this phenomenon. At best Nigeria produces 4,000 megawatts of electricity daily, no more than it did at independence nearly 50 years ago; South Africa generates ten times more for a population three times smaller.[5] Most Nigerian cities have electricity for just a few hours per day. Most families, in urban and rural areas alike, depend on firewood for cooking. According to World Bank estimates, Nigeria loses about $600 million a year because of insufficient electricity supply, which make certain types of industries economically unviable.[6] Petrol is similarly scarce, which also impairs economic development, in particular in a country as vast as Nigeria, which relies heavily on transport.

Currently Nigeria is *importing* petrol from abroad, at market rates. The reason is that Nigeria's major oil refineries are all dilapidated and hence operating well below capacity. Even if they were working at full capacity, however, they would not be able to meet domestic demand: new refineries have not been developed at anything like sufficient speed. Another problem adds to this: the federal government currently only allots a certain (insufficient) amount of crude oil for domestic refining and consumption, as it can make more money by selling it abroad.[7] Nigeria's "energy poverty" is thus linked to general problems of governance and is part and parcel of the "oil curse".

European Policies

European policies have evolved considerably over the decades since Nigerian independence in 1960. Western states have reduced reckless lending to ill-governed countries such as Nigeria (where the borrowed money has more often than not been stolen). Despite its oil wealth Nigeria has been reclassified from "blend" to "IDA only" status, nominally making it a priority of international aid. In their development assistance, the European Commission and EU member states increasingly stress governance as key to development, both in Africa in general and in Nigeria in particular.

2. Chukwuma, Innocent "An Election Programmed to Fail: Preliminary Report on the Presidential and National Assembly Elections Held on Saturday, April 21, 2007" on behalf of the Domestic Election Observation Group.
3. Human Development Report 2007/2008 – Country Fact Sheets – Nigeria *http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_NGA.html*
4. Economist (2008). "Another deadline goes up in flames: Continued gas flaring harms both the environment and the economy" p. 44, 5th April.
5. Lawal, Leonard (2007) "Lights out for oil-rich Nigeria: Nigeria has more oil than any other African country. But it can't keep the lights on" Fortune 4 December 2007 *http://money.cnn.com/2007/12/03/news/international/nigeria_power.fortune/index.htm*
6. Lawal, Leonard op. cit.
7. Arizona-Ogwu, L. Chinedu (2008). "Nationwide Oil Shortage: Whose Fault?" Nigerian Muse 15 March *http://www.nigerianmuse.com/articles/NATIONWIDE_OIL_SHORTAGE_Whose_Fault*

The European Commission and EU governments fund a swathe of governance-related projects, and formally agree that service provision and other "technical" projects and programmes must henceforth be governance-sensitive to be effective in the medium and long term. The EU provides substantial funds to the EFCC. EU election monitoring teams have been highly critical of the manipulation used to distort Nigeria's election results.

Since the September 11 terrorist attack in the United States, EU countries have started to crack down on proceeds from looting and corruption ending up in the banks of European states. Although progress is somewhat uneven, formerly important havens such as the United Kingdom are now considered "extremely helpful" by people inside the EFCC.

In 2005, Nigeria, the United States and the UK set up the Gulf of Guinea Energy Security Strategy (GGESS) to step up efforts to combat oil theft, illegal small arms dealings and money laundering in the Niger Delta and beyond. Since then, France, the Netherlands and several non-EU states have joined. As a consequence, Nigeria has been able to equip and upgrade its amphibious capacity and a tagging mechanism has been developed preventing stolen oil from being easily sold internationally.

After assertive encouragement from several European governments, Nigeria was the first country to sign up to the Extractive Industries Transparency Initiative (EITI). It is in the forefront in implementing EITI measures and has published a fully audited and reconciled EITI report with data disaggregated by company.

European oil majors insist that their outlook and actions have also changed. Since the bad international publicity Shell received after Abacha executed Ken Saro Wiwa for his protests against Shell's operations in the Niger delta in 1995, multilateral oil companies have launched various "community outreach" projects, funding education, health care, and basic infrastructure development.

Policy Challenges

Despite evolving in many positive directions European policies have failed to make a strong positive impact in Nigeria. One important reason is lack of leverage. Nigeria is Africa's most populous country, and its dependency on aid is very low. But the EU and its member states could be doing a lot more to help the energy-development link function in a positive rather than negative fashion. In 2020 the EU is likely to be more dependent on Nigerian oil and gas, while Nigeria's own domestic tensions are likely to be worse if governance reforms are not forthcoming. The EU should address the following policy shortcomings:

- EU countries' aid profile in Nigeria is weak. Only the United Kingdom and (to a lesser extent) Germany have bilateral aid programmes of any substance in the country. A more concerted development effort is needed from other European actors.
- Governance efforts are still limited and cautious. Controls on the flows of looted Nigerian funds in places such as the UK have been counterbalanced by the lack of cooperation from some EU states as well as the emergence of new destinations for dirty money, including financial centres in Dubai, Malaysia, Singapore, and China. EITI is not, as it currently stands, a panacea for governance reforms in the energy sector (see Box 1).

BOX 1: The Limits to EITI

EITI is often trumpeted as the initiative most pertinent to linking energy, development and governance issues. But it has been subject to increasing criticism. Critics point out that EITI:

- has encountered problems of political interference;
- has failed to prevent oil companies dragging their feet in compliance;
- only focuses on auditing government income;
- excludes issues arising prior to companies' payments to governments (the distribution of rights of exploration, contracting, etc.);
- equally excludes issues following payments to governments, namely the nature in which governments spend oil and gas revenues;
- does not monitor whatever oil companies pay to security providers and other non-government entities.

Debates have gathered pace on proposals for an 'EITI plus' that would seek to rectify these shortcomings and extend transparency commitments 'along the value chain'. As yet few European governments have been willing to support such a notion.

For further information on the EITI, please see "Eye on the EITI", by Revenue Watch Institute, 2006, at *http://www.revenuewatch.org/news/022508.php*, and "10 Developments That EITI Will Face in 2008", by EITI International Secretariat, 2007 , at *http://www.eitransparency.org/node/299*.

- It is only recently that European policy-makers discovered that it is impossible to separate the issue of development in Delta communities from the oil industry, and that no solution can be found without the involvement of all stakeholders, including oil majors.[8] EU gov-

8. Khakee, Anna (2007). "EU Democracy Promotion in Nigeria:

ernments have still been reluctant to work directly in the heartland of the oil-cursed Nigeria: the UK's Department for International Development is only now moving into the Delta region, although its programme in Nigeria is one of its largest world-wide.

- Development and good governance are only part of the EU agenda in Nigeria. More short term energy supply interests tend to be overpowering. Although at present the US is a larger importer of Nigerian oil than the EU, and Nigeria ranks only eighth among top-providers of oil to the EU, new oil and gas discoveries in Nigeria imply that its importance is set to grow in coming years. EU companies such as Shell, Total, and Agip still have strong interests in Nigerian oil and gas extraction. EU states, and in particular countries such as France, Italy, the Netherlands, and the UK, have an interest in securing oil supplies and the position of their "champions" in the country.
- GGESS, although intended to counter criminality and insecurity in the Niger delta, is focused mainly on securing oil supply. Unrest in the Niger delta in 2006–2007 reduced oil output by about 17 per cent.[9] GGESS is an effort to counter such costly disruptions of production. Although GGESS has recently set up a working group on sustainable development, there is no governance dimension to this initiative. With its strong focus on energy security, it is doubtful whether the GGESS represents the right way forward for the Niger Delta and Nigeria.
- European oil companies themselves have responded to the worsening security situation in order to protect their employees and shareholders' interests. This is not only done through "community outreach" (as outlined above), but also through stepping up security, including armed security and the payment of ransoms, at all levels. The Nigerian government and oil companies have also been accused of fomenting divisions to compromise Delta militants, through lucrative sub-contracting deals. Moreover, community outreach projects are widely regarded with scepticism: projects have been opaque, unsustainable and used, according to critics, to buy off community leaders.
- European oil companies have only made limited efforts at the macro-level of environmental and community health protection, the prevention of corruption and the protection of livelihoods in the Delta region—although Shell has signed the UN Global Compact on human rights, labour, the environment and anti-corruption. The Nigerian state does not require companies to meet high standards of behaviour (or, as in the case of corruption, often even solicits unethical behaviour). As a consequence, Shell and other oil companies are asking for an additional 3-year deadline for abandoning gas-flaring, arguing that the Nigerian side has not shouldered its part of the costs.[10] The EU, although it likes to portray itself as the promoter of a more humane brand of market economy, distinct from the American variety, has also so far failed to rein in the dealings of EU-based multilateral companies in Nigeria.

The EU has come some way in ensuring that what one European hand gives is not swiftly taken back by the other. Stashing away looted Nigerian funds in Europe has become more difficult and reckless lending to corrupt and theft-prone Nigerian elites has been reduced. The analysis of the causes of underdevelopment in Nigeria—including the nexus between governance, corruption, violence and the workings of the oil industry—has become more refined.

There is still a long way to go, however. The overall commitment to Nigeria remains low. Efforts such as EITI are still limited and rather toothless, and it remains to be seen whether the GGESS will go beyond narrow energy security concerns. The EU's oil dependency and the national interests of some member states to protect their oil multinationals hamper what are, in other respects, positive developments. Without major changes to its policies, the EU is unlikely to be making a positive impact to energy-development-governance linkages in Nigeria in 2020.

Between *Realpolitik* and Idealism", FRIDE Woking Paper 47 Madrid: FRIDE December

9. Cited in International Crisis Group 2007 op. cit., p. 10.
10. Okonta, Ike (2008). "Nigeria's Resurgent Oil Diplomacy" Project Syndicate *http://www.project-syndicate.org/commentary/okonta7*

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