OIL EXPLORATION AND NIGERIA'S UNDERDEVELOPMENT: THE NEED TO ESCAPE THE NATURAL RESOURCE CURSE

Joshua Danjuma[1]
Dick Peter Batet [2]
Achi Yusuf [3]

ABSTRACT
This paper examines the nature of the natural resource curse in Nigeria. The country has actively engaged in oil exploration for about six decades and is Africa's largest producer of oil resources. During the oil boom of the 1970s, oil was the primary source of government revenue, amounting to 80% of total income. The paper adopts content analysis of mainly secondary sources to examine the research problem at stake using the resource curse theory. Findings reveal poor political institutions, corruption and lack of accountability, weak executive control of oil resource governance with apparent inadequate checks and balances, and the resultant conflicts and clashes of interests, manipulations, and inflation of oil contracts with favouritism in allocating oil blocs. Therefore, this article submits that to ensure optimal benefits to all citizenry; measures must be adopted in building political institutions, reforming the Niger Delta Development Commission, diversification, building a welfare state, equitable distribution of oil wealth, and the sovereign wealth fund and the imposition of direct tax. Finally, the paper argues that escaping the natural resource curse is challenging but possible.

Keywords: Curse, Corruption, Institutions and Natural resource

[1] Joshua Danjuma is with the Department of History, Kaduna State University, Kaduna, joshua.danjuma@kasu.edu.ng
[2] Dick Peter Batet is with the Department of Art/Humanities, Starfield College, Kado Abuja
[3] Achi Yusuf National Teacher'Institute, Kaduna Study Centre

INTRODUCTION

Oil availability in Nigeria has been a subject of debate in resource curse literature, especially in the relationship between growth and economic development in the country compared to what is obtainable in some oil-endowed countries (Abdelwahed & Campbell, 2021). Nigeria is blessed with a greater volume of oil than any country in sub-Saharan Africa. Indeed, the country ranks among the top ten oil-producing countries globally. Yet, despite this vast oil abundance, growth has always been marginal relative to other oil-rich countries like Norway and Chile. Since Nigeria joined the league of oil-producing nations of the world and registered her membership with the Organisation of Oil Producing Country (OPEC), the government has been unable to find solutions to questions relating to managing the oil revenues, ensuring accountability, and diversification for equitable and sustainable economic growth. Only recently, Nigeria established an oil wealth sovereign fund, as the case is with other natural resources-rich countries of the world that have turned their natural resources into a blessing (British Petroleum Archives, 2019). This essay sheds more light on the natural resource curse concerning Nigerian oil resources and suggests some measures on how to escape the resource curse.

THE NATURAL RESOURCE CURSE

After decades of investigations, economists, historians, sociologists, political scientists, and policymakers agreed upon the "resource curse" – a theory that resource availability can be disastrous to economic development. Specifically, the available literature on natural resources has discovered a strong relationship between reliance on natural resources and other negative results like incessant conflicts and wars, poverty and inequality, lack of accountability, dictatorship, corruption, and failure of diversification (Oramade, 1999)

What could be responsible for this relationship of nature, given wealth and some adverse outcomes? Several models agree that the resource curse can operate through various mechanisms. Scholars have used the economic model to explain this through the Dutch disease

effect. Others have seen the impact on institutions as more devastating (International Monetary Fund, 2000).

Karl (2005) argues that earlier models of the resource curse impact on growth and development focused on the macroeconomic consequences. The most popular and commonly known such effect is known as the Dutch disease - indicating how natural resources like revenues from oil resources with their potential to crowd the export and production of other commodities as a result of the effects they have on the actual exchange rates (Ahmad & Singh, 2003). The Dutch disease principle of the economic impact is self-explanatory: a rise in the export of a resource like oil can induce a country's exchange rate, resulting in a situation where other exports become relatively expensive (Karl, 2005). Furthermore, Ahmad and Singh (2003) believe that this negative consequence on other existing commodities and exports is compounded through the exchange rate volatility that comes from frequent swings in the price of the resources.

An additional responsible agent of the resource curse is the institutional effect. It is an effect that explains the lack of sustainable growth and development in a country due to the absence of competent institutions that can channel the resource wealth to harness economic growth, sustainable development, and diversification (Akinlo, 2012). Moreover, resource abundance can undermine the performance of a regime where the tax and revenue system is poor. The social contract theory argues that taxation is the first oration of accountability between a state and its citizens (Akinlo, 2012). This notion finds its origin in developing and building a democratic political state in countries like France and the United Kingdom, where regimes that needed money to sustain wars resolved to tax their citizens to raise the required revenue. In exchange for their taxes, taxpayers demanded their voice in government actions, greater rights, and health and social services with the provisions of primary and social amenities (Aldridge, 1983).

Wealth "Unearned (unearned income)," like oil income, demands little from citizens or no government contribution and impedes the social contract. It makes it difficult for resource-rich nations to build a state of capability (Al-Kasim, 2006). The argument is that

when natural resource rents are for the state treasury, it reduces the state's effort at targeting its needed revenues through tax. With no need to generate income from taxation, the government is exonerated from the demand for accountability. It can be a build-up to the emergence of "rentier states," which relies on small economic endeavours for revenues for growth with no responsibility to its citizens. The language implies no representation without tax (Al-Kasim, 2006). However, as earlier suggested, the resource curse is not inevitable considering the success of oil-rich Indonesia and diamond-endowed Botswana. Therefore, the next section of this paper finds those recommended steps and means of escaping the natural resource curse.

THE CONCEPT OF POLITICAL INSTITUTIONS

Essentially, this solution works within the availability of a vital institution that can champion any proposal on how to avoid this paradox of plenty. Alkhater (2009) sees such an institution as one characterised by essential attributes like citizens' participation in choosing their leaders, political tolerance, equity, accountability, transparency, and free and fair periodic elections. It also includes characteristics like economic liberalisation, control over power abuse, respect for electoral results and voters' decisions. In addition, there should be a separation of governmental power among the arms of government that exists in the state, respect for human rights, a multi-party system, and the availability of the rule of law (Alkhater, 2009).

Hopefully, Nigeria can learn from the success stories of Alaska and Norway in building their institutions (Ammani, 2011). The already established political institutions had been significant in ensuring an escape from the oil curse. However, findings have revealed that Nigeria suffers from the natural resource curse owing to the inability of the country to harness proceeds from the oil revenue and natural and human resources to build a robust economy and growth (Amu, 1986). The sole responsibility for performing this function lies in a credible institution lacking in this process. The real success is to deliver it within the political and economic factors since the two complements each other. Concerning this background, the place of the state in growth and

development has been a subject of heated argument among scholars (Amuzegar, 2001). Additionally, such a state must also be preoccupied with determining the flow and nature of the agenda that involves the process of policy formulation, implementation, execution of decisions, and well-crafted policies to meet the targeted goals of building a solid-state (Amuzegar, 1999).

As often conceived, institutions are central to the success of any economy. The presence of resource abundance is a blessing to regimes that design a long-term plan for their state and their citizens (Amu, 1986). This long-term plan must involve modalities for extracting resources and adequately utilising the resource wealth. If governance is terrible, resource abundance is always a waste. However, defining management is problematic in this context as the meaning may have a sense of ambiguity. This paper calls for good management that bear the following attributes: accountability, the rule of law, and the control of Corruption (Ammani, 2011).

All the solutions discussed above could offer a pathway to a natural resource curse country like Nigeria, which has been unable to turn its oil wealth into a blessing amidst vast deposits of crude and billions of dollars that the government has enjoyed from oil sales within the last six decades. Critical among these attributes of good governance are 'voice and accountability. If found in government, this attribute can be measured by activists, political processes, and civil liberties in checking significant stakeholders' engagement in resource extraction, management, and distribution (Amuzegar, 1999). First, the absence of monitoring operations of the oil wealth, for example, in Nigeria, has created a system where people can be appointed and get sacked. As a result, oil rents have always dissipated over the years. Secondly, the public service manages the country's resource wealth through the effectiveness of competent civil servants. Finally, the inability of the Nigerian government to harness revenues from the oil wealth and put it to use is attributed to a lack of better management and implementation of responsible political decisions by the state (Amuzegar, 2001).

Importantly, in as much as oil endowment and its development involve a long-term scheme, there is a double need to build synergy with private parties with an unfriendly market schedule to include the price control mechanism and excess regulatory burdens that are always unwanted. Fourthly, any brutal regime must have a reliable and independent anti-corruption body ready to ensure corrupt citizens are sanctioned (Arezki, 2007). Currently, the regime in Nigeria seems to be battling with the challenge of governance that can champion the process of avoiding this oil curse.

THE NATIONAL OIL AND SOVEREIGN WEALTH FUND

Despite her massive oil income, ensuring a part of it is meant for future use has been an illusion in Nigeria (Nigeria National Petroleum Corporation, 2014). The idea of a national oil or sovereign wealth fund as practised in Norway and Alaska or the sovereign wealth fund as enjoyed in China are two models that Nigeria can draw lessons from (Arezki, 2007).

Norwegian model of the Sovereign Wealth Fund, as of September 2007, held over $200 billion as exchange reserves that the state executive initiated through the Norway Investment Corporation (Asfaha, 2007). The Sovereign Wealth Fund is instrumental in expanding Chinese overseas business and protecting the country from global competitiveness. In addition, the 2007 wealth fund is pivotal to the success of China's financial institution investments in dealing with the 2008 global economic turmoil (Asfaha, 2007).

The national oil funds that ensure the proper use of oil wealth were first introduced and practised by Norway and Alaska. This oil fund is critical in ensuring that the oil wealth benefits were successful. Key to the success of this policy was the 'political will' through the institution of governance. Unfortunately, this idea of oil funds and other policies has not worked out well in states with poor implementation and decision-making institutions (Abdulkadir, 2012).

Omotola (2006) believes that oil funds are justified to ensure that oil rents stay away from the national economies - designed to prevent the Dutch disease. Oil funds provide hitch-free revenue volatility,

ensure that oil wealth is for future generations, and mitigate governance challenges that spring up due to windfalls. The use of this oil fund is the provision of a backup plan when a country runs out of payments from traditional sources of revenue (Adati, 2012).

Using lessons from other resource-rich countries, regimes in sub-Saharan Africa have attempted to allocate funds to oil reserves but with little success. Nigeria, for example, tried an oil investment fund called the 'Excess Crude Account ', which later collapsed due to a lack of transparency (Adati, 2012). But, holistically, Nigerian leaders have always enjoyed the extra-budgetary oil fund as pots which they always loot.

The concept of an oil fund is only achievable if the oil wealth is kept aside from the existing oil reserves – a situation that can create an avenue for looting if not well managed (Abdulkadir, 2012). Crucially, an oil fund must enjoy a consistent deposit of money in meeting future use for generations to come with total restraint from officeholders. Unfortunately, a limping political system often finds it difficult to maintain such funds without dipping hands. At times, even when a fund structure is allocated, subsequent regimes always tend to loot from the existing treasury. Gabon's Fund for Future Generations (FFG) case typified an excellent example of where past leaders have stolen from the oil fund. But as earlier said, the secret to this campaign lies in the availability of political institutions (Barro, 1991).

Boosting Transparency and Accountability

Transparency and accountability are popular tools that are difficult to find in a resource-abundance state. The idea of boosting transparency is another milestone that has been reliable in providing an escape route from the resource curse dilemma. It involves giving confidence to the citizens at large through access to information (Barro, 1991). This measure remains a voluntary initiative for countries that see transparency as a watchword. This method aims to feed the public with information that can assist in demanding accountability. Recently, with some early success, the Tax Justice Network and others have sought to expand the transparency debate to the international financial system"

(Barro & Lee, 1994). Nigeria can best profit from the transparency and accountability policy if it joins Botswana and other countries in aligning with the Extractive Industries Transparency Initiative (EITI). This idea has been central in accountability and transparency, as efforts ensure citizens are informed with information about accountability (Nwankwo, 1983).

Sadly, transparency is associated with setbacks. When leaders like those in Nigeria when called to make the oil revenues known to the public, the process always appears more of asking a corrupt regime to regulate itself (Transparency International, 2014). As a result, anyone seeking credible information is more likely to get lip service that would not correlate with the reality on the ground, as they must always look for a base to exhibit the looting instinct to the detriment of the state (Olakloku, 1980).

Looking at the place of transparency in escaping the resource curse, Barro and Sala-i-Martin (2004) see the process of boosting transparency as a regulatory tool. They rest their argument on the overall level of corruption and truncation of access to information. They maintain that since most corrupt regimes in resource-rich countries have always resisted the traditional growth process, transparency can best offer a means of checking their reckless spending of resource revenue. The conviction here is that when payment of royalties and concession fees are known, it can impede and minimise the instinct to steal (Olawale, 1989).

A closely related problem in boosting accountability is that civil societies and pressure groups have not used data and records provided regarding shady oil deals and loot to call the offenders to account despite a level of transparency (Berthelemy & Varoudakis, 1996). As earlier mentioned, the solution to ensuring this proposal's success lies in establishing a solid political institution of governance with the political will to implement these proposals.

Reforming the Niger Delta Development Commission (NDDC)

Another way of escaping the resource curse in Nigeria is the need for urgent reform at the NDDC. The commission came into

existence in 2000 after several commissions failed. The NDDC aims to reduce the negative consequences of oil exploration in the Niger Delta and provide regional social and economic development (World Bank, 2018).

Two critical reforms will be necessary at the NDDC: First is the commission's structure, which allows the president to select the commission's chairman. This procedure implies that it does not reflect trust and confidence from Niger Deltas. The other reform lies in transparency and accountability. For example, the NDDC is accused of improper utilisation of allocation meant for the region (World Bank, 2018).

Economic Diversification

On diversification, Welsch (2008) conceives diversification as a standard proposal for escaping the resource curse and is eulogised by scholars and global governing institutions. Fighting the resource curse by adopting this measure is arguably enjoying weight from the range of competing debates more than any other proposal. Despite poor implementation, the idea has received calls from leaders and policymakers in resource-rich economics. One feature of the resource curse is this: this so-called paradox of plenty permanently cripples some sectors at the expense of revenue reliance on the primary commodity (Welsch, 2008). A concrete example is the experience of Nigeria with the loss of her flourishing agriculture in the 1970s. Dependence on oil has led the country to import rice, a commodity it was producing on a massive scale before the oil boom of the 1970s. Nigeria now imports agricultural and other foods that the country was growing before her oil boom (Stijns, 2005).

As a factor in escaping the oil curse, diversification entails focusing on developing and building other sectors of the economy to complement revenues from crude. This diversification has proved to be one of the oldest and most reliable means of avoiding the resource curse. The cluster model of diversification that proved successful in the United States can also be experimented with (Gillies, 2009). Before doing this, social and political reforms should be carried out. Existing

businesses and institutions must undergo a level of reform as well. It must involve upgrades in areas like transport, energy, and provision of security to ensure that confidence is won. Critical regions of reforms must include physical infrastructures and the market. Additionally, institutional reforms must include workforce development and professional training to ensure that new sectors have the necessary staff and professionals to succeed. Diversification can help a regime reduce the pressure and reliance on natural resources (Stijns, 2005).

To diversify the economy, Nigeria must learn from Botswana. It is achievable by improving economic performance to increase the economy's flexibility in responding to internal and external fallouts affecting crude supply (Barro, 1991). It is on record that the inability of Nigeria to diversify its economy has been attributed to poor and slow economic growth due to weak institutions as the oil rent persists. However, Nigeria can now fix other sectors like the steel industry and revive agriculture and other related sectors outside the oil industry. Unfortunately, the Ajaokuta Steel Complex is one area that has suffered decades of neglect despite the considerable potential that avails itself in the company (Ammani, 2011; Gentile, 2007).

Equitable Distribution of the Oil Wealth and the Imposition of Direct Tax

Equitable distribution of the resource wealth and direct imposition of a tax for the government's project and development is another method that has worked in some resource-rich nations where an advanced developed political system was in place (Akpan, 2009). The direct distribution method of oil wealth appears to have a level of complication when considering the transparency needed in the diffusion process. Nigeria's rich history of corruption and lack of accountability can constitute a setback in this process (Gentile, 2007). The solution and success of this method must include the role of political institutions that ensure checks and balances with proper accountability. The distribution process is to be equitable and prosperous without rent-seeking. In that case, the government can also earn its revenue directly from the citizens through tax to perform its

functions and execute developmental projects. The Alaskan model offers another viable alternative to learn from (Collier & Hoeffler, 2004).

The direct distribution mechanism works best where oil wealth revenue will remain with an independent body that ensures a lump-sum sharing formula to Nigerians and the availability of an assuring sharing method like electronic transfer or any better alternative means of making the payments. Therefore, the government can now get back tax from each citizen's income from the oil revenue. Alternatively, the government can choose to deduct its tax before the cash transfer to individuals. It can be a prior tax or a virtual tax system. The direct distribution and tax system must ensure that government utilises the tax judiciously, knowing it serves as a source of earnings since the oil revenue goes to all the citizens (Akinosho, 1998; Collier & Hoeffler, 2004).

INTRODUCTION OF THE WELFARE STATE

Despite resource abundance, one common trend in sub-Saharan Africa is the absence of a welfare state. Botswana and Mauritius could be seen as exceptions as they give their citizens a level of welfare service that Nigeria and many others are guilty of not providing (Ayoola, 2005; Ajumogobia, 2008).

The welfare state, in this context, is not a political arrangement or institution; but rather a governmental spending arrangement that ensures the well-being of citizens. The survival and success of the welfare state prevail effectively under a developmental state. Such spending under a welfare state is obtained through essential services, including mandatory-income insurance and direct government services like human development schools, health, water, and other necessities of life (Adomako, 2008; Ayoola, 2005; Ajumogobia, 2008).

Historically, social scientists and historians, in particular, traced the origin of modern welfare states in the late '70s and early '80s (Adomako, 2008b). Institutions and the foundation of the states were built decades ago. Since its adoption in the developed world, the International Bank for Reconstruction and Development (IBRD) has welcomed this state-led spending plan. It is another reliable means of

improving livelihood in resource curse countries and reasonable criteria for measuring economic development (World Bank, 2018).

Nonetheless, despite the success of the welfare states in other parts of the world, countries in sub-Saharan Africa have not done enough to pursue a welfare scheme for their citizens. In Nigeria, for example, much has not been done by providing gifted education, workforce training, rent control, and regulating agricultural price support, checking inflation and price stability in the market to its about 200 million citizens (World Bank, 2018). This sizeable population that comprises able young men has not helped supply the needed human resources for industries and key sectors due to a lack of training. In addition, essential health is a myth that millions are yet to experience. The presence of a welfare state can serve as a means of escaping these negative resource woes (Ayoola, 2005; Ajumogobia, 2008).

In adopting a developmental model, the model of South Korea is arguably the most successive story of the last century. This process started from agriculture to manufacturing leading to the exportation of electronics globally. The country offered a good lesson for Nigeria due to their similar level of development some five decades ago. But in the present, South Korea has become a reference point in economic performance and regime type considering economic growth and human records (Ajumogobia, 2008).

What Nigeria can learn from South Korea's experience is the efficiency of the state and its ability in macroeconomic intervention and motivation in the aspect of resources. The process of infusing the state's led developmental ideology was another essential aspect of the Korean model worth emulating. Other vital aspects are policy consistency and how the regime handled social pressures. Development statistics suggest that the state economic policy was very crucial for the transformation of Korea. Coherent policies were formulated and effectively implemented as the state planners were the drivers of this success story, not the free market (Ajumogobia, 2008).

The United States of America also offers a lesson to Nigeria on welfare policies. The US has developed more universities than any country globally, with available scholarships for its citizens to break

financial barriers to enrollment. However, over 160 universities in Nigeria are insufficient to cater to prospective enrollment seekers in a country with about 200 million people (Ayoola, 2005; Ajumogobia, 2008).

FOCUSING ON THE SUSTAINABLE DEVELOPMENT GOALS (SDG)

One area of sustainable development planning that Nigeria has neglected and showed no ruthless ambition to pursue is achieving the Sustainable Development Goals (SDGs) objectives. Meeting the MDGs offers another viable means of escaping the dilemma of this so-called paradox of poverty (Al-Monee, 2006).

Abdulkadir (2012) believes that in about 189 United Nations member countries that signed the SDG pact, sub-Saharan African countries, in general, have not done much to pursue a genuine program of meeting the SDGs. The few exceptions are South Africa, Botswana, and Mauritius. Amidst resource abundance in the sub-continent, meeting the SDGs appears more of an illusion.

Nigeria, for example, failed to work on the framework for the SDGs using the National Economic Empowerment and Development Strategy (NEEDS). The areas of the SDGs involve ending extreme poverty and hunger, achieving global primary education, promoting gender equality and women empowerment, reducing child mortality, improving maternal, fighting diseases like HIV, and malaria, among others, ensuring environmental sustainability, and developing a global partnership for development (Abdulkadir, 2012; Al-Monee, 2006).

CONCLUSION

This paper reviews the decades of oil exploitation in Nigeria. Briefly, it discusses the meaning of the resource curse as an application to the history and current state of Nigerian oil resources. The paper argues that natural resource in Nigeria has not been a blessing compared to what is obtainable in other countries. The resource curse is the primary culprit for this failure of oil wealth in Nigeria to produce positive gains. Nonetheless, the paper foregrounds that oil, being the

mainstay of the Nigerian economy since the oil boom era, can produce fruitful yields if some factors and strategies are put in place like diversification, boosting of transparency, the building of solid political institutions, fighting corruption, reforming the Niger Delta Development Commission, initiating measures like the sovereign oil wealth fund as in being done in Norway and other steps like equitable distribution of oil revenues and the imposition of direct tax. If these measures are taken, Nigeria is believed to escape the natural resource curse that has brought attributes like corruption, inequality, lack of transparency, conflict, and an oil-undermined democracy.

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