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# Natural Resource Revenue, Extractive Industries Transparency Initiative (EITI) and Africa's Development

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## **Abstract**

*The study was on Natural Resource Revenue, Extractive Industries Transparency Initiative (EITI) and Africa's Development. It adopted the institutional theory and historical research design. Data were obtained and analyzed by qualitative analysis of content of document obtained from secondary sources. The study found that the EITI is an ideal initiative; nevertheless it has not transformed the efficient management of Africa's resource revenues for developmental purposes. Reasons being that it is voluntary and lack enforcement capacity. The study therefore recommends prudence in the application of the EITI principles in the management of natural resource wealth, which no doubt can help find the path of success by avoiding the ugly pitfalls that have afflicted resource endowed economies in Africa. It also advocates the creation of enforcement mechanisms that place sanctions on individual's national and international entities that support domestic actors responsible for natural resource diversions. Accordingly, governments and international organizations seeking to mitigate resource management flaws should target these middlemen with sanctions as well.*

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**Keywords:** *Extractive Industries, Transparency Initiative, Resource Revenue, Resource management and Development.*

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## **1.1 Introduction**

The idea of Extractive Industries Transparency Initiative as a way of ensuring effective resource management has been hailed by scholars and in policy circles; considering the fact that more than fifty countries have subscribed to the initiative (Benjamin K.S et al 2016). Added is the fact that regional development banks, other international development agencies, bilateral agencies, and international civil society organizations fund the activities of national EITIs, as well as the implementation of the Standard in the member countries (Lujala P. 2018; EITI 2015). But most of these works failed to consider the country's specific needs and the fact that it is a choice and not compulsion for countries to subscribe to its principles. Nevertheless, the attention it has generated and the impact it has had on member countries is worth reviewing with a view to determining its effectiveness in resource management. The aim of the study is therefore to examine the EITI effectiveness in resource management with a view to identifying its weakness and possible ways of ensuring that the purpose of the initiative is realized to bring about the development of resource rich African states. The questions therefore are, what is Extractive Industries Transparency Initiative (EITI)? What are the benefits of EITI in the management of Africa's resource revenue and how has such revenue amounted to the development of resource rich African states that are party to the EITI initiative? To effectively address the above research questions, the study adopted the institutional theory as a tool and applied the historical research design relying on secondary sources of data. The data were analyzed by qualitative and quantitative analysis of the documents obtained unobtrusively.

To start with, the Extractive Industries Transparency Initiative (EITI) is a global coalition of governments, companies and civil society working together to improve openness and accountable management of revenues from natural resources. Natural resources, such as oil, gas metals and minerals belong to a country's citizens (Benjamin K.S et al. 2016). Extraction of these resources can lead to economic growth and social development. However, when wrongly managed it has too often lead to corruption and even conflict. More openness around how a country manages its natural resource wealth is necessary to ensure that these resources can benefit all citizens.

In October 2002, the former United Kingdom Prime Minister Tony Blair announced the EITI at the world economic summit for sustainable development in Johannesburg. It was then launched in June 2003 at Lancaster House in London. The Extractive Industries, Transparency Initiative is an independent, international agreement on the implementation of global transparency standards in the resource extracting industries. The core idea is that companies "Publish What They Pay" and governments "Disclose What They Receive". Therefore, the EITI creates a coalition of governments, companies, investors, international organizations and civil society. It is designed to ensure that all people see results from the extraction of their natural resources through a transparent, efficient and sustainable management of resource incomes (EITI 2010).

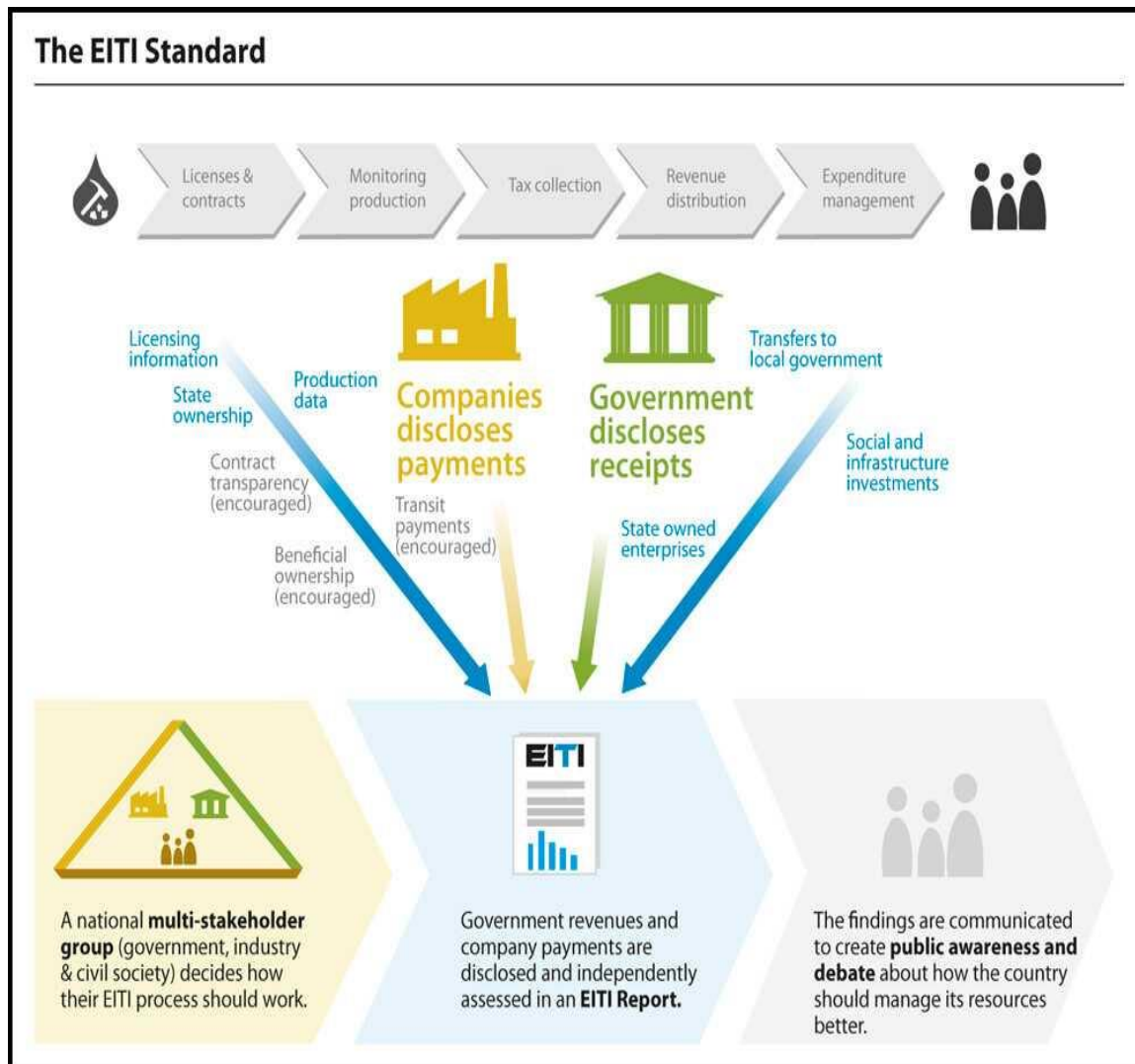
The EITI standard is the authoritative source on how countries can implement the EITI. It is a global transparency of natural resources. This has led to the twelve EITI principles (listed below) which were represented at EITI conference in 2003 (EITI Business Guide 2003). The diverse group of countries, companies and civil society organizations that attended the conference in Lancaster House London (2003) agreed on the statement of principles to increase transparency and accountability over payments and revenues in extractive sectors. These became known as the 'EITI principles' and stand as the cornerstone of Extractive Industries Transparency Initiative.

## **1.2 The EITI Principles**

- 1) We share a belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not properly managed, can create negative economic and social impacts.
- 2) We affirm that management of natural resource wealth for the benefit of a country's citizens is in the domain of sovereign governments to be exercised in the interests of their National Development.
- 3) We recognize that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.
- 4) We recognize that a public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development.
- 5) We underline the importance of transparency by governments and companies in a bid to enhance public financial management and accountability.
- 6) We recognize that achievement of greater transparency must be set in the context of respect for contracts and laws.
- 7) We recognize the enhanced environment for domestic and foreign direct investment that financial transparency may bring.
- 8) We believed in the principle and practice of accountability by government to all citizens for the stewardship of revenue streams and public expenditure.

- 9) We are committed to encouraging high standards of transparency and accountability in public life, government operations and business.
- 10) We believe that a broadly consistent and workable approach to the disclosure of payments and revenues as required which is simple to undertake and to use.
- 11) We believe that payments' disclosure in a given country should involve all extractive industry companies operating in that country.
- 12) In seeking solutions, we believe that all stakeholders have important and relevant contributions to make-including governments and their agencies, extractive industry companies, service companies, multilateral organizations, financial organizations, investors and Non-governmental organizations. Between the global conferences, the EITI board oversees the initiative. The board has twenty members who represent the different constituencies of companies, countries and civil society. The EITI secretariat is responsible for turning policy decisions of the EITI board into action, and for coordinating worldwide implementation efforts (EITI 2005).

EITI is based on a quite simple idea, participating voluntarily; governments of resource-rich countries are encouraged to publish information about revenues from their extractive industries. This information is compared with payments of Extractive Corporation to the government-including taxes, duties, royalties, bonuses and other payments regardless of whether companies are private, state-owned, foreign or domestic. Each country, an independent administrator reconciles the disclosed figures. This is overseen by a Multi-Stakeholder Group (MSG) consisting of government, company and civil society representatives. The EITI reports are publicly available and encourage national debate by allowing domestic NGOs to hold their governments accountable for any discrepancies.



Source: The EITI Standard

Fig. 2 illustrates how EITI is designed to function

The EITI standard offers a blue print for transparency and accountability with its fixed principles and requirements.

To ensure transparency, efficiency and sustainability in the management of resource incomes for the benefit of all people, the EITI has six programmed items ("EITI criteria"): Firstly, all material payments by companies to governments ("payment") and all material revenues received by governments from extracting companies ("revenues") have to be published regularly to a wide audience in a publicly accessible, comprehensive and comprehensible manner. Secondly, payments and revenues are to be audited in a credible and independent manner, applying international audit standards. The administrator has to publish his/her opinion, in particular regarding discrepancies, should any have occurred.

Fourthly, this approach should be extended to all companies; including state-owned companies. Fifthly, civil society takes active part in the process by monitoring and evaluating the steps taken and by contributing towards public debate. Sixthly, the host government has to develop a public, financially sustainable work-plan. It includes measurable targets, a timetable for implementation and an assessment of potential capacity constraints. Where required, the host government can take assistance from the international financial institutions (EITI 2010).

### **1.3 EITI Benefits**

The benefit for countries implementing the initiative is the potential improvement in investors' confidence and the development of strong accountability, good governance, and political stability (EITI, 2005). Promoting initiatives like EITI cost very little when juxtaposed to the potential benefit. Revenue audits encourage transparency and prevent government officials from misusing funds. In most African countries like (Nigeria, South Sudan, Chad, Angola, etc.) citizens do not know how much natural-resource revenue is being generated, or where the money is spent. Often, secret bank accounts in foreign countries amplified corruption that undermines development. Additionally, when prices of resources fluctuate, it becomes impossible to account for resource revenues stolen by government officials. Auditing funds and allowing transparency may avoid this problem, increasing the possibility of channelling money to economic development.

There is this growing awareness to the role natural resources play in our lives and there are many competing uses for natural resources, hence society is challenged to manage them. Africa is generally described either in terms of great wealth and high potentials, or as land of misused resources, hardship and deficiency. Either way, many African countries does have several natural resource assets that could lead to social and economic development Auty, R. (1994).

From this study, it is clear that EITI in itself is not sufficient to eradicate resource Mismanagement in the Extractive Sector, however, it is an essential part of the solution. The multi stakeholders' approach of the EITI is creating platform for dialogue and engagement which previously did not exist in many African countries, while EITI reporting process is generating data on revenues that was either previously not available or difficult to access for interested stakeholders.

It is as a result of the secrecy and lack of accountability mechanisms around oil and gas revenues that provide a perfect enabling environment for corruption, as governments in numerous resource-rich African countries are notoriously reluctant to publicly disclose how much revenue they receive from their extractive industries or how they spend these revenues. These apparently gave rise for the establishment of EITI to checkmate and ensure transparency within the Extractive Industries among countries, not only in Africa but across the world.

## **2. Natural Resource revenue and Africa's development**

Africa's natural resources provide a unique opportunity to foster human and economic development. However, Africa suffers from the paradox of plenty, meaning that abundant endowments of natural resources do not lead to equivalent levels of prosperity, broad-based development and resource-based industrialization. One key obstacle preventing African countries from realizing this potential is poor governance or management of her resource wealth.

Poor governance refers to the lack of strong institutions and weak policies, aimed at short-term gains rather than at long-term development objectives. In addition, easy access to and capture of revenues are factors that make governments less accountable and more likely to preserve the interest of minority governing elite with limited benefits for the population (International Energy Statistics 2015; United Nations Conference on Trade and Development 2012).

The level of poverty in most resource-rich countries in Africa has not been reduced, as the predictions based on their economic growth performance would suggest. As a case in point, most resource-rich African countries have some of the largest gaps between income and human development, as reported in the Human Development Index (UNDP 2016). In spite of the abundance and diversity of natural resources in Africa, the continent remains the least developed in the world. The abundance of natural resources including oil and gas has had a rather negative development outcome for several African countries, a phenomenon often



referred to as the ‘resource curse.’ Overall, the wealth of natural resources has not yielded positive benefits in terms of inclusion and poverty reduction in Africa.

A further problem that impedes development benefits from natural resource wealth is the status and structure of Africa’s extractive industries. Most countries in the continent remain exporters of unprocessed or lightly processed commodities. According to UN Economic Commission for Africa (UNECA 2013), sub-Sahara African dependence on primary products is high and there is low value addition to commodities before export.

Due to this dependence, the region is exposed to high commodity volatility and limited linkage of the commodity sector to the local economy. Furthermore, a study by the Southern African Development Community [SADC] on the value chain for a range of minerals in Africa shows that the value of processed products was typically 400 times greater than the equivalent unit value ( by weight) of the raw materials (Africa Progress Panel 2013:45).

As a result, Africa needs to climb the value- added chain of mineral processing and manufacturing to unlock the full economic potentials of its natural resources. It needs to foster local resource-based industrialization and value addition and embrace it, as a legitimate aspiration. The goal is to use natural resource endowments to develop competitive local supply industry that, through employment creation, value addition, technology and knowledge transfer, fosters broad-based sustainable development Africa’s Progress Report (2013).

### **3.1 Data Presentation**

The data for the study were secondary sourced data and they include but not limited to the following: EITI (2016). Extractive Industry Transparency Initiative Source Book, Nigerian Central Bank Annual Report 2015; Nigerian National Petroleum Corporation (NNPC) crude oil production and export 2015: OPEC Statistical bulletin 2014, 2018; United Nations Human Development Report 2015, 2016 and 2017. Most of such documents were written by experts in their various fields working for the mentioned agencies and other independent sources. Such independent sources include the following: Donato De Rosa and Mariana looty (2012): “Are Natural Resources Cursed”? An Investigation of the Dynamics of Resource Dependence on Institutional, Darby, S. (2010). The Transparency and Accountability Initiative Natural Resource Governance Strategic Summary etc.

### **3.2 Data analysis**

Whereas issues relating to the clarification of concepts were done in the preceding section, we shall at this point focus more on qualitative and quantitative analysis of the documents under study. But our emphasis shall be on how such revenue amounted to the development of resource rich African states. In other word we shall evaluate the impact of EITI on natural resource revenues towards Africa’s development.

**Evaluate the impact of natural resource revenues on Africa's development.**

**Table 1: Revenue from Crude Oil Production and Exportation 2002-2016 for Nigeria, Angola, Algeria, Libya and Chad**

S/N	Country	Volume of Crude Production 2002-2016	Volume of Export 2002-2016	Value of Export in US\$ Billions 2002-2016	% of Global total
1	<b>Nigeria</b>	12003503.38	10371150.38	653382474	3.9%
2	<b>Angola</b>	8370669.93	7580298.93	477558832.6	3.6%
3	<b>Algeria</b>	6532436.39	5254899.39	331058661.6	1.0
4	<b>Libya</b>	6853826.92	5537672.92	348873394	1.1
5	<b>Chad</b>	624989.5	616631	38847753	0.1%
<b>TOTAL</b>		34385426.12	29360652.62	<b>1,849,721,115.000</b>	<b>9.7%</b>

**SOURCES:** Central Bank of Nigeria 2015; OPEC Statistical Bulletin 2014, 2018

**NOTE:** calculation of the export value is based on OPEC average of \$63 per barrel for the years 2002-2016.

The figures above indicated that between 2002 and 2016 African countries under study produced a combined total of 34.93 billion barrels of crude oil, exported 29.3 billion barrels and realized \$1.8 trillion US Dollars; amounting to 9.7 per cent of global total. The above stated amount for the period under study should be enough to transform Africa in developmental terms. Especially when reference is made to the fact that about \$13 billion United States dollars through the Marshal Aid Plan was able to transform a war ravaged Western Europe within the period of ten years. According to the Council of Foreign Relations (2018) ‘the \$13.2 billion the United States dedicated to the Plan from 1948 to 1952 would be worth a substantial \$135 billion in today’s money’. If we subtract \$135 billion from \$ 1.8 trillion which the African countries under study have realized within the period under study, we will still have a balance of \$1.665 trillion. If that be the case, one would at least hope that a period of 15 years and such a whooping sum should make a great impact in the development of the continent. Even if we narrow it down to the three countries of emphasis (Nigeria, Angola and Chad), you discover that they have earned a combined total of \$1.1 trillion United States dollars within the period under study. Should we also subtract today’s worth of Marshal Aid Plan put at \$135 billion United States dollars from the above figure, we will be left with an excess of \$ 1.034 trillion. At specific country level, if today’s worth of Marshal Aid plan is subtracted, there will still be an excess with the exception of Chad. Unfortunately, the above revenue earnings have not shown any significant improvement in human development index in the area of the quality of education, standard of living and life expectancy among the people. The summery of human development report for the years 2002 and 2015 coupled with full report of 2016 as presented below showed very marginal improvement in human development indices.

**Table 2: Human Development Report for Nigeria, Angola Algeria, Libya and Chad**

Country	Average Human Development Index 2002-2015	Human Development Index 2016 (HDI)	Life Expectancy	Expected years of Schooling	Mean Year of Schooling	Gross National Income Per Capital	Gross National Income Per Capital Minus (HDI)	HDI Rank
Nigeria	0.489154	0.53	53.9	10.0	6.2	5,231	-20	150
Angola	0.501357	0.577	61.8	11.4	5.1	5,790	-16	152
Algeria	0.713786	0.753	76.3	14.4	8	13,802	-5	86
Libya	0.734429	0.693	72.1	13.4	7.3	11,100	-12	108
Chad	0.357786	0.405	53.2	8	2.3	1,750	-15	186

**SOURCE:** UNDP Human Development Report 2015, 2016.

**NOTE:** The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. It is measured with '1' being the highest value.

Despite the huge revenue earning from the extractive industries, African countries especially those from the Sub-Sahara remain at the lowest ebb in terms of human development indicators. Although a comparison of the 2002 to 2015 average and 2016 figures in second and third column suggest an improvement for some of the countries but such improvement is very marginal compared to the amount realized from resource wealth within the period. The fourth column indicates that live expectancy among African countries especially those under study are very low. This is as a result of lack of access to basic amenities such as health care facility, lack of quality education and very low income per capital. Consequently, the African American Institute noted in their 2015 report that 'In sub-Saharan Africa, only seven countries achieved the gross enrolment ratio target of 80 percent or more students in pre-primary education programs'. The report noted further that 'only 6 percent of young people in sub-Saharan Africa are enrolled in higher education institutions compared to the global average of 26 percent. Besides, instructional materials such as text book especially in key subjects like mathematics are under supplied. UNESCO (2012) noted that 'the supply of reading and mathematics textbooks for pupils in public primary schools is not sufficient... In three out of ten countries reporting data, there are two or more pupils pre-reading book.' Again, a look at the seventh column shows that the income per capital contrasted sharply to the revenue realised so far as African countries mostly those from sub-Sahara ranked lowest on the list.

The implication of the above analysis is that irrespective of the fact that the countries under study subscribe to the EITI initiative, it never really mattered in terms of the management of their resource revenue to reflect the principles of the EITI. In other word EITI have no significant influence in the management of Africa's resource revenue. The reasons being that there is lack of an overarching enforcement mechanisms that should compel individuals, nations and multinational entities to work according to EITI set standards

Consequent upon the above, the huge earnings from the sector has not impacted positively on the citizenry. On the country, African leaders continue to display stupendous wealth in their acquisition of private jets and other luxury typifying the saying that African leaders are living



in an 'Island of wealth in the ocean of poverty'. One could then ask, why has such enormous resources not translated to development in Africa? For this study the answer lies in weak institutional framework of African states. This explains while many scholars like Joseph (2005) concluded that resource is a cure to countries that are endowed with it.

Resource rich countries in Africa are often governed by political leaders with weak legitimacy and limited oversight institutions. This combination lends itself to scenarios where leaders are effectively auctioning off a country's natural resource treasure for personal benefit. This has brought about civil unrest and human suffering on a vast scale. Unequal distribution of natural resources forces the disadvantaged to take up arms, thereby creating violence and insecurity that destroys the existing fragile infrastructure and hamper development. And the low level of human development among Africans is exacerbated by civil/ethno-religious crisis occasioned by attempts by one ethno-religious group to dominate the rest which have ravaged Africa since independence.

### **Conclusion/ Recommendations**

The study was on the effectiveness of Extractive Industries Transparency Initiative in the management of Africa's resource revenue with focus on the utilization of Africa's resource revenue for developmental purposes. Based on the analysis of the data at our disposal, the study concludes that EITI has not been effective at ensuring the efficient utilization of African resource revenues for the development of the countries under study. Such ineffectiveness stems from the fact that the EITI is voluntary and lack enforcement mechanisms. Consequently the study recommends that for EITI to impact positively on utilization of resource revenues for Africa's development, its principle must be prudently applied. To prudently apply such principles and efficient enforcement mechanisms must be devised to ensure that non-compliant individuals, nations and multinationals are sanctioned to act as deterrent to others.

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