AN ANALYTICAL BASIS FOR BOTSWANA'S DIAMOND-ENCLAVE SUSTAINABLE ECONOMIC GROWTH AND WELLBEING: LESSONS FOR NIGERIA

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Abstract

The performance of natural resource-rich nations in Europe (Norway, USA, Canada and Russia) and in the Middle East (Saudi Arabia, Iran, Kuwait, United Arab Emirates, Libya, Qatar and Algeria) suggests natural resources can be a decisive advantage to sustainable economic growth and development. The paradox of 'resource curse' is more of a sub-Saharan African phenomenon than a general rule. Even within the Africa context, there are exceptions to this malaise. One such exception is Botswana, a leading exporter of diamonds, which – unlike most natural resource-rich countries in sub-Saharan Africa – has achieved an impressive economic growth and performance since independence. Over the last two decades, the economy of Botswana grew at about 7.8% on average, the highest growth rate across the whole sub-Saharan African region. Over 40% of this growth is driven by the mining sector, which provides up to 80% of total export earnings for the country (Fofack, 2009:1–2). This study holds that if an oil extractive rich economy like Nigeria curb corruption and put oil resource windfalls to good use, her economy and society would hardly face social and economic unrest. Since the late 1980s, revenue from oil production continues to rise in Nigeria while political leadership is corrupt and majority of the population very poor (Social Development Integrated Centre, 2012, Fagbadebo, 2007, 030-031). This is also the case with Azerbaijan, Kazakhstan, and Turkmenistan in the Caspian basin; as well as the Southeast Asian countries of Cambodia, East Timor, Myanmar, and Vietnam (Ross, 2008:3; Eifert, et. al, 2003). It is within the foregoing context that this study reviews the secret behind Botswana's sustainable economic growth and wellbeing, which are largely attributed to good governance (Leigh, et al., 2012, Kiiza, et al., 2011). This *allowed resources to be devoted to public good (Beaulier and Subrick, 2006:104). This paper used secondary documentary sources of data.*

Keywords: ***Botswana, Nigeria, Enclave Economy, National Development Plan, Sustainable Economic Success, oil wealth, mismanagement, Lessons***

Introduction

> On average, resource-abundant countries have experienced lower growth over the last four decades than their resource-poor counterparts. But the most interesting aspect of the paradox of plenty is not the average effect of natural resources, but its variation. For every Nigeria or Venezuela there is a Norway or a Botswana. Why do natural resources induce prosperity in some countries but stagnation in others? (Torvik, 2009: 24).

Presence of abundance hydrocarbon deposits in Nigeria has tended not to promote sustainable economic growth and transformation. Nigeria continues to suffer political violence and insecurity as rival identity entrepreneurs and claimants to the political economy. In contrast, countries including Botswana, Norway, Australia, and the USA continue to benefit from natural resource abundance. In the 1900s, Norway was considered as one of the poorest countries in Europe. Kiiza (*et al.*, 2011) submits that by the 1960s, the country still lagged behind other Scandinavian countries in GDP per capita and other social and economic indicators. Their research findings also argue that by the 1970s, prudent management of oil wealth enable Norway to overtake countries like Denmark and Sweden to the extent that at the threshold of the 21st century "Norway is one of the world richest and well-governed countries, with some of the best human development indicators".

In Africa, Botswana is roughly comparable to the world's best performers. When Botswana obtained independence from Britain in 1966, it was the third poorest country in the world (Acemoglu, *et al.*, 2003: 1; Kiiza: 2006; and Acemoglu *et al.*, 2001). Botswana was a commodity (or 'cattle') economy with limited postcolonial growth prospects. With the discovery of diamond at Orapa 1967 and the subsequent opening of Juaneng diamond mines in 1982, Botswana's economic growth prospects changed for the better. By the late 1970s, Botswana became one of the world's fastest growing economies (Tregenna: 2006, Kiiza *et al.*: 2011). Real GDP growth averaged 16 per cent between 1970 and 1974. Between 1975 and 1989, rapid growth continued. By this time, mining had comfortably replaced cattle as a leading economic sector (Tregenna: 2006, Kiiza *et al.*: 2011). Domestic savings started to exceed investment as Botswana ran budget and trade surpluses. The ratio of government revenue to GDP was 50 per cent. It peaked at 64 per cent in 1988 and doubled the African average. In 1997, Botswana graduated into a middle income economy (Kiiza *et al.*, 2011: 191-192; Leith: 2012; Leith, 2006; Leith: 2000). Tregenna (2006) vividly describes Botswana's meteoric rise in the following words:

> At independence in 1966, Botswana was amongst the poorest countries in Africa and in the world, with a GDP per capita of just $91. 95% of the population was rural and over a fifth of the total population was dependent on famine relief. The country had just 7 km of paved road, 2 secondary schools, 22 Botswana had graduated from university and only 100 from secondary school...The only significant "manufacturing" activity at independence was an abattoir that was built in 1954. Botswana subsequently experienced the highest rates of growth in the world, with average real GDP growth of 9.90% per annum over the period 1966-2004. This compares to average rates of 4.26% for low income countries, 4.19% for middle income countries and just 2.99% for Sub-Saharan Africa. Botswana is currently classified as an upper-middle income country, and its GDP per capita in 2004 was $5,014.00 or $9,267.00 in PPP terms.[1]

Botswana's GDP is over $14 billion and per capita income is $8,800 (Kiiza: *et al.*, 2011: 191, Jefferis and Kelly: 1999: 212). The level of infrastructural development is also high. Botswana now has over 888 km of railway and 10,217 km of roads (with 5,619km paved and the rest unpaved). With one of the highest foreign exchange reserves in the world (Kiiza: *et al.*, 2011: 191, Jefferis and Kelly: 1999: 212) and at a time when most African countries have a huge debt burden, Botswana's foreign debt is only about 14 per cent of GNP. The country has no internal debt and is a net exporter of capital (Leigh, *et al.*: 2012). Botswana's socio-economic indicators continue to look impressive. This study seeks to ascertain the lessons of good governance practice that an oil resource-rich country like Nigeria can draw from Botswana.

The study interrogates the rationale behind Botswana's success in transforming its diamond enclave wealth into sustainable growth and development when Nigerian oil enclave economy continues to record under-development. This study seeks to shift the debate to perhaps the more important question: why did a resource-abundant country like Botswana continue to witness sustainable economic growth while Nigeria continue to be engulfed in macro-economic crises, deepening civil unrest, high profile violence and armed militant activities? Given that Nigeria is rated among the poorest countries in the world, this study interrogates the social and economic factors responsible for this huge variation (Papyrakis and Gerlagh: 2004). Collier and Hoeffler

[1] See: ""Explaining Botswana's Growth: With a comparison to Chile", in *Ideas*, *Fall 2006*, by Fiona Tregenna, accessed on 09/10/2012, at: http://www.policyinnovations.org/ideas/policy_library/data/01387

(2005:627) set this debate on course when they argue thus:

> Large resource rents are not intrinsically a curse. They obviously have the potential to accelerate peaceful development, and this potential has occasionally been realized, as in Botswana. Hence, the search for conditioning circumstances is a key research agenda: clearly, in some circumstances resource rents induce or prolong conflict, and in others they do not.

This study employs the Enclave Economy theory to explain why extractive mineral-rich economies from the global south tend to generate wealth but distort the local subsistence economies and alienate the majority of the indigenous population where such extractive activities are located thereby leading to lower economic growth than other resource-poor nations.

Theoretical Perspective

In common sense parlance, abundant natural resources should promote growth, since resource richness can give a 'big push' to the economy through more investment in economic infrastructure and more rapid human capital development. But in practice that is not the case. Japan and Korea succeeded in becoming world class steel producers despite their complete dependence on imports of iron ore (Sachs and Warner: 1997:3). This means that natural resource endowment can only be a decisive advantage to economic growth when put into good public use for human development. Iimi's (2006:1, 9–10) study demonstrates that the success story of Botswana is largely driven by effective natural resource management and growth, particularly high quality regulation, and anti-corruption policies such as transparency and accountability in the public sector.

The enclave economy theory simply states that rather than promotes economic transformation in developing economies; the abundance of natural resources serves as impediments to sustainable economic growth. The argument holds that natural resourced economies are mere enclaves that serve the interest of Transnational Corporations (TNCs) and local ruling elite in Africa. This is because proceeds generated from the exploitation of such resources have little or no impact on the general population. Enclavity, therefore, implies the co-existence of two interrelated segments of the economy and society. It entails the existence of separate sets of economic processes within the same political or national social boundary or sovereignty. The first segment engages in a formalised system of social and economic activities based on an extractive enclave nature. The extractive enclave is propelled by foreign TNCs in collaboration with the local ruling elites. The major driving force of enclave economies is maximum accumulation of profit from resources extracted. The drive to maximise profit from investment implies logically that the local subsistence economies are distorted and in most cases dislocated (Ogbonna: 1979).

The implications are also that the members of the indigenous population are displaced from their normal social and economic activities. Some of the local population may be forced to migrate, others may be co-opted into the formal economy of the enclave economy, yet many others may become restless and destitute (Gandu: 2011). Majority of African population which remains outside the sphere of influence of capitalist means of production serves as 'reserve armies' and source of the supply of cheap labour (Olukoshi: 2007, Gandu: 1992). The Enclave Economy paradigm thus; draws attention to the ways in which emerging extractive capitalist sector in sub-Saharan Africa is structured and how it functions, as distinct from the informal or subsistence sector which it distorts.

The larger part of the problem is that the emerging extractive capitalist sector in Sub-Saharan Africa is largely external oriented and unresponsive to domestic challenges and needs. The social consequences of enclavity, especially its distortion of subsistence economies leading to "low life expectancy rates and the high incidence of health and social maladies such as high infant mortality rates" (Mhone: 2001:3). In enclave economies, majority of the population, therefore, continues to be trapped in non-capitalist forms of production and engaged in low productivity in their pursuits to merely survive. With the distortions of subsistence agriculture by extractive activities of the oil sector in Nigeria (Ogbonna: 1979), survival for the majority of indigenous people in the Niger Delta region is, therefore, a real struggle. This is because the oil sector exists as an enclave surrounded by a sea of mass under-employment, unemployment and even the 'working poor' (Gandu: 2011).

Nowadays it is "commonly accepted that resource-abundant economies tend to grow less rapidly than resource-scarce economies" (Iimi: 2006:3). Mhone (2007, 2001) demonstrated very clearly that there is no way enclavity could be overcome without the pro-active role of the African state. His model demonstrates an interesting taxonomy of enclavity through which losses from African enclave economies flow as gains to Metropolitan Europe. Many developing economies in Asia have made the crucial turn toward more inclusive growth and development; but the situation continue to look pathetic in oil rich Nigeria (Ross: 2008, Asuni: 2009, Watts: 2003, Fofack: 2009, International Crisis Group: 2006, UNDP: 2009). On the contrary, Botswana's nationalistic ruling elite have ensured sustainable economic growth for their country. Since the 1980s, the country's average growth rate has been 7.8 per cent (Iimi: 2006:3).

Socio-Economic Basis for Botswana's Diamond Enclave Sustainable Economic Growth and Wellbeing

> Contrary to the widespread evidence of the curses inflicted on a number of countries because of abundant natural

> resources, Botswana's experience is one where the natural resource diamond has been combined with human ingenuity to create human capital and knowledge innovation, thereby contributing positively to the country's economic growth and development. In fact, the country's economic growth trend since independence in 1966 has been remarkable. According to the country's former President… Thanks to diamonds…that we have seen our country transform from one of the poorest in the world at independence, to the middle income status that it now attained" [former President Mogae of Botswana, 7th June 2006]. this is in sharp contrast to the realities which the country's neighbour, Zambia experienced due to copper boom in the 1970s as the latter country's former president once lamented: "we are in part to blame, but this is the curse of being born with a copper spoon in our mouths" [Keneth Kaunda, former president of Zambia]…(Makochekanwa: 2009: 4-5).

A landlocked country with a low-density population of about 1.8 million, Botswana is located in Southern Africa. Botswana became a British protectorate in 1885 and gained political independence in 1966 (Martin: 2008, Acemoglu *et al*.: 2003: 93; Kiiza: 2006). At independence, Botswana was more or less a 'cattle' economy with limited growth prospects (Martin: 2008: 40). With a sub-tropical climate, only four per cent Botswana land is arable (Martin: 2008, Acemoglu *et al.* 2003). Close to over 80 per cent of the land surface of Botswana is occupied by the Kalahari Desert. This makes the land the most suitable for seasonal grazing and raising cattle for beef (Martin: 2008; Acemoglu *et al.:* 2003: 93; Kiiza: 2006).

Botswana rapid economic growth continued from 1975 to 1989. In the 1980s, mining replaced cattle as a leading economic sector in the country. By this time, domestic savings began to exceed investment. The Botswana state began to experience budget and trade surpluses; government revenue ratio to GDP stood at 50 per cent and peaked at 64 per cent in 1988 (Kiiza: *et al.:* 2011: 191; Acemoglu: *et al.:* 2003: 1). These figures double the African average. By the middle and late 1990s, Botswana extractive economy and society had graduated to become a middle income economy. This success has been attributed to transparent democratic values and a deep-seated culture of accountability (Kiiza: *et al*.: 2011).

In their analysis of Botswana's success story, Martin (2008), Barclay (2009), Iimi (2006) and Transparency International (2005) challenge the 'resource curse' thesis. They went beyond diamond by putting their analytical energies on the dialectical link between institutions and socio-economic growth. Martin (2008:36) engages the origins of Botswana's institutions, and specifically analysed the interaction of institutions and interests within the development policy process which took place after political independence in 1966. In his quests for answers, he interrogates "the initial conditions that allowed Botswana to develop after independence" He asked the question: "why have Botswana political elites pursued growth-promoting policies?" His study identifies the role played by "human agency in the initial strengthening of the state — the decisive leadership of Botswana's first president, Seretse Khama" (Martin: 2008: 36). His conclusions were that

> …institutional arrangement in place in Botswana at independence, favorable to political elites and their interests, was determinant. Growth-promoting strategies, such as providing public goods (education, infrastructure) and ensuring macroeconomic stability were chosen not only because these policies were popular for the constituencies of the Botswana Democratic Party (BDP), but also because they brought direct benefits to the elites (Martin: 2008: 36).

The performance of natural resource-rich nations in Europe and in the Middle East suggests that the paradox of plenty is more of a sub-Saharan African phenomenon (Fofack: 2009). Botswana continues to sustain a robust economic growth as the country experienced a virtuous circle of wealth accumulation over the years. Given that Botswana has not suffered from the problems associated with her fellow Sub-Saharan African countries, it is important to explain this success story of an enclave economy. On the question of why and how Botswana adopted policies that engendered its remarkable growth record, whereas other similar enclave economies in Africa failed; Beaulier and Subrick (2006:104) argue that the answer "lies in the effectiveness and legitimacy of its political institutions". Table: 1 shows the trend of Botswana's economic growth from 1966-1996.

Table 1: Botswana Comparisons Real Growth of GDP per capita, 1966 to 1996

Country	1996 Population	1996 GDP/Cap US$	10 Year Growth Rate	20 Year Growth Rate	30 Year Growth Rate
Botswana	1 490 000	3 296	4.9%	5.2%	8.2%
Chile	14 420 000	4 800	6.2%	4.0%	2.8%
China	1 221 500 000	683	8.7%	na	na
Hong Kong	6 190 000	24 898	4.6%	5.3%	6.0%
Indonesia	198 340 000	1 146	5.2%	4.5%	5.7%
Ireland	3 520 000	19 526	5.8%	4.3%	4.5%
Korea	45 540 000	10 641	7.2%	6.8%	7.7%

Lesotho*	2 050 000	420	4.9%	na	na
Malaysia	21 170 000	4 690	5.6%	4.3%	na
Singapore	3 040 000	30 942	7.0%	6.4%	7.8%
Thailand	60 000 000	3 007	8.0%	6.1%	6.4%
Trinidad & T	1 310 000	4 177	-0.8%	-0.4%	0.8%

Source: Adapted from Leith (2000: 3).
Notes:
* Latest population is for 1995

US$ GDP per capita calculated using latest available current price GDP, converted at average exchange rate for 1996. Botswana GDP data are averaged over adjoining national account years ending June 30, to yield calendar year.

The source for the successful development of an enclave economy like Botswana is derived from legitimate and effective political institutions; nationalistic value system of a political ruling elites committed to building their economy and society. Estimates based on the Botswana Core Welfare Indicators Survey (BCWIS) 2009/10 show that the country is witnessing a sharp decline in the poverty headcount rate from 30.6 per cent in 2002/03 to 20.7 per cent in 2009/10. Similarly, the absolute number of persons living with income below the poverty line of less than US$1 declined from around 500 thousand in 2002/03 to about 373 thousand in 2009/10. Besides the decline in the national poverty rate, rural poverty in Botswana declined from 44.8 per cent in 2002/03 to 25.5 per cent in 2009/10 (Leigh, *et al*.: 2012: 4).

Right from political independence, Botswana did not succumb to the 'natural resource curse' even though diamond revenues provide over 40 per cent of her GDP (Iimi: 2006:3). Botswana continues to maintain low rates of inflation, at least when compared to sub-Saharan African standards. Despite its challenged geography, Botswana has maintained sustainable economic growth for decades. Botswana is one of the few African countries besides post-Apartheid South Africa to invest heavily in public goods, such as primary and secondary education and paved roads, rather than invest in bogus projects, as it is the case with Nigeria (Ogbeidi: 2012). For instance, since independence, the total length of paved roads in Botswana has increased from 60 km to 10,000 km (Beaulier and Subrick: 2006:104). For the past five decades, Botswana has been able to sustain high economic growth because her "real GDP per capita (adjusted using purchasing power parity) grew from around $3,500 in 1980 to close to $12,500 in 2010". This implies an average annual growth rate of 4.3 per cent (Leigh: *et al*.: 2012: 4).

Beaulier and Subrick (2006:104) further explain that the most important factor that galvanised Botswana to success despite the enclavity of her economy is that "the source of authority cannot be the agent of authority; in other words, there must be a separation of power between the people who wield power and the institutional embodiment of political power". This is because "if the agents of authority are also the sources of authority, then legitimacy lives and dies with them". The persistent failure of Nigerian government palliatives which began with the inauguration of the Willink Commission in 1957, serves as a fundamental reminder of institutional failure. Beaulier and Subrick (2006:104) further submits that "if the sources of legitimacy differ from the agents, then political transitions that do not threaten the stability of the political system can occur". The success of Botswana is imbedded in its pursuit of policies that addresses the general welfare of the Botswana people (Leigh, *et al.*: 2012, Beaulier and Subrick: 2006).

The state welfare policies built on Khama's legitimacy and provided the necessary impetus for the country's transition to a modern state (Beaulier and Subrick: 2006:104). In 2002, Botswana exported $2 billion dollars worth of diamonds, nickel, gold, and other natural resources[2]. Through good government policies, strong political leadership, and a sound long-term development plan, Botswana has seemingly avoided the effects of the 'resource curse', and provided quality public services such as education and healthcare to its citizens. Effective anti-corruption laws and high civil engagement has also forced elected representatives to be more transparent about how they are spending and distributing the country's natural resources.

Drawing comparative instances between Botswana and the Democratic Republic of Congo, Dunning (2005:451–454) develops a theoretical game model to examine the choice between looting resource rents and investing them for growth. Dunning (2005) together with the studies by Collier and Hoeffler (2005:628) observes that Botswana was in a fortunate position because of its arrangements with De Beers, the South African diamond mining company, which included a buffer stocks guarantee. In addition, Debswana Diamond Company, the Botswana branch of De Beers is owned equally by De Beers and the government of Botswana, assuring stable revenue for the country. Debswana also invests in the community, building hospitals, schools, and recreational facilities for employees and local residents[3]. Because all aspects of the diamond trade, including mining, cutting and polishing as well as manufacturing are managed by subsidiaries of

[2]See: "Analysing the natural resource curse", in News Hour Extra, accessed on: 02/02/2010, http://www.pbs.org/newshour/extra/teachers/lessonplans/world/conflict_diamonds_natural_resource_curse.pdf

[3]Ibid

Debswana, Botswana retains more of its diamond wealth than other nations that only export rough diamonds.

Since 1970, Botswana's per capita income has grown more than tenfold, from about $425 to more than $4,420 in 2006. However, in an equally endowed natural resource country, the Democratic Republic of Congo (DR), income levels declined in real terms because real per capita income dropped to $91 in 2006 from over $325 in 1970 (Fofack; 2009: 2). There is a similar, abysmal story of a downward trend in the case of Nigeria. We are not in any way saying that the underlying impressive income growth in Botswana has automatically translated into mass employment or a western European type welfare regime and complete poverty eradication.

There is indeed relative poverty in Botswana. But the persistence of poverty in Nigeria in the midst of an exceptional growth performance in Botswana can be explained in part by the capital-intensive nature of the extractive industries sector, which brings few forward and backward linkages and thus few opportunities for employment. The issue is that while the mining sector accounts for over 40% of GDP in Botswana, it represents less than 5% of total employment (Fofack; 2009:2). Other intervening variables that may also explain the situation of Botswana have to do with the fact that the country has poor scientific infrastructures and lacks the highly skilled human resources to process the raw diamonds into finished products for the international market. All these cumulatively further undermined employment opportunities in the mining sector of Botswana economy.

Despite the foregoing, it should be admitted that, compared to Nigeria, the ordinary people of Botswana as a whole have enjoyed a steady improvement in welfare over the past decades. Notwithstanding, the HIV/Aids pandemic that has afflicted the country, disciplined management of revenue from the mining sector has contributed to economic transformation for most of her people, in terms of household income growth and access to essential social services, including anti-retroviral drugs for HIV/Aids patients. Moreover, the government of Botswana has established a Sustainable Budget Index under which mineral revenues are exclusively used to finance development and recurrent spending in the health and education sector.

In the case of the Niger Delta region of Nigeria, the huge revenue from oil has led to a situation that has been described as "oil doom and HIV/AIDS boom" (Udonwa, *et al*..: 2004). Unlike in Botswana, where substantial revenues from the mining sector have been used to fight against the HIV/AIDS pandemic, Udoh *et al.* (2008: 670) argues that Oil Bearing Communities (OBCs) in Nigeria's Niger Delta region have not been so lucky. Yet, the socio-economic impact of oil exploration which is highly associated with poverty is one of the "underlying factors driving HIV prevalence in the Niger Delta region" (Udoh, *et al*..: 2008: 672, Udoh, *et al*..: 2009). Calain's (2008:3) study of four oil-rich African countries consisting of the

Niger Delta region of Nigeria, Angola, Southern Chad and South Sudan, using the common denominator of oil exploitation, found that despite differences in social settings, history, and ongoing conflicts; oil has led to general fragmentation of health systems in these countries and regions. Udoh (*et al.*.: 2008:670) succinctly captures the situation in Nigeria thus:

> Evidence suggests that HIV/AIDS prevalence in Nigeria increases exponentially as one moves from the Southwest to the South-South of the country where oil exploration is concentrated. Three states within the Niger Delta (Akwa Ibom, Cross River and Rivers), which are home to significant oil exploration activities, have prevalence rates equal to or higher than the national average in 2005 ranging from 3.9% among adults aged 15–49 years... to 4.4% among adult women aged 15–49 years... Unlike other parts of the world, where oil-producing communities benefit from investments and support from oil companies or favourable revenue-sharing plans with the government, the Niger Delta does not appear to benefit from the extraction of its natural resources.

Diamond-Enclave Sustainable Economic Growth and Prosperity in Botswana: Lessons for Nigeria

How does one explain the economic record of resource-rich Botswana in comparison with resource-rich disasters such as Nigeria? And what lessons of good practice can Nigeria draw from both effective and ineffective performers? The working hypothesis is simply that a national economy benefits when domestic institutions are development-enhancing. The fundamental lesson from Botswana is that the real source of Nigeria's failure is not the hydrocarbon deposits in the Niger Delta region. Rather, the dialectics of the problem is rooted in Nigeria's economic and politics of primitive accumulation, corruption and mismanagement of oil revenues (Ogbeidi: 2012; Adesote, *et al.*: 2012). Nigeria's weak state structures lack the capacity to utilise oil wealth and 'windfall' revenues to build social and economic institutions as well as infrastructure including sound agricultural platform for food security, educational services, road networks and railway construction.

The economic failure, therefore, arises from the weak domestic capacity of Nigerian national elites to govern the national economy for both short and long-term development (Gandu: 20011). On the contrary, the so called Botswana 'miracle' or economic growth is rooted on good governance, accountability, transparency and nationalistic posture of her national bourgeoisie. As Botswana consistently exhibits one of the highest rankings in the world transparency and corruption index; her political elite has been what Fofack (2009:3–4) describes as "frugal and accountable to the people", and "these attributes have enabled these leaders to withstand a culture of rampant greed that has done so much to undermine the development process in the rest of the continent". Fofack (2009:3–4) again sums it up thus:

> When leadership fails, we end up with extremely wealthy elites surrounded by abject poverty. On the other hand, where there is a commitment to good leadership, natural resource endowment is conducive to economic growth and poverty reduction, regardless of the prevailing political system.

Like the conclusions drawn by Mehlum (*et al.*: 2006), the issue is not to continue the lamentation over how oil wealth continues to undermine Nigeria's economic growth potential but to seek for reasons why countries like Norway and Botswana succeed when Nigeria fails. The answer can partly be found in cross-national value system and differences in the quality of domestic institutions between those who succeed and those who fail from natural resource abundance. Kiiza (*et al.*: 2011: 191) succinctly captures the essence of domestic institutions thus; "resource-rich countries that have a malfunctioning bureaucracy and insecure property rights tend to attain lower growth outcomes and more violent conflicts than those that have high quality".

In the case of Nigeria, oil wealth engendered by corruption and lack of public accountability continue to undermine good governance and the development of democratic ethos because "oil generates large streams of foreign exchange, and these flows become the basis for patronage that supports dictatorship and autocracy" (Alayli: 2005:3). The foregoing constitutes the drivers of civil conflict and instability as individual and groups struggle to gain control of oil revenues. Alayli (2005:3) submits that in the final analysis, those excluded use all means "to try and wrest control, while dominant groups have an incentive to take a disproportionate share of benefits". The logic is that "once the resource is seen as belonging to the public, the incentive to wrest government control for personal benefit is reduced as the value of control over government is diminished" Alayli (2005: 3). This also explains why a resource endowed economy like Nigeria failed to perform (Robinson: *et al.*: 2006).

Since the discovery of hydrocarbon deposits in Nigeria's Niger Delta region (Phia: 2009, 2006), oil booms enable her political elites to discount the future of the economy by over-extracting oil and gas resources. Oil booms have also tended to raise the value of being in power by providing in Nigerian politicians with more resources which they continue to deploy to influence the outcome of elections and political patronage. This increases the problem of resource misallocation as well as put considerable pressure on the economy. Oil booms have had an overall negative impact on the Nigerian economy due to the absence of critical institutions to manage the boom. Robinson's (*et al.*: 2006: 447) submits that "countries with institutions that promote accountability and state competence will tend to benefit from resource booms since these institutions ameliorate the perverse political incentives that such booms create".

Under the foregoing situation, Nigerian citizens have less incentive to form a viable 'civil society,' and the development of an independent middle class becomes impossible. Under such circumstances, the development of technocratic and entrepreneurial talents is stifle; employment and advancement opportunities are held captive; and the prospect of losing industrialisation and urbanisation becomes obvious (Dietz, 2005). Another dimension of the problem is that Nigerian political elites have developed a tendency to resist modernisation pressures for as long as possible. This is the case with, especially dismal investment in the educational and manufacturing sector, electricity supply, railway and road construction and the provision of potable water.

The works of Ross (2008, 1999) have shown the extent to which increases in the magnitude of rents resource booms led political elites and policy-makers to dismantle institutional safeguards that would protect the rent. This is what Ross calls *rent capturing;* a situation where elites concentrate more on how to primitively appropriate booms from natural resource rents. This in turn weaken institutional framework that are supposed to regulate the good use of public revenue. The consequences are that 'oil wealth fuels conflict' instead of development (Ross: 2008).

The fluctuation in oil prices witnessed in the 1970s cannot be blamed for the economic failure of the Nigerian economy. Rather, transparent management of natural resource booms and slumps is a panacea to success. It is not unusual for an economy heavily dependent on one mineral export to experience booms and dramatic slumps. Botswana's mineral sector has indeed exhibited the capacity to manage both booms and slumps to her economic advantage. For instance, while rapid growth occurred in the early 1980s as a major new diamond mine came on stream; but with the world recession of the middle 1980s, Botswana witnessed a slump in the prices of diamonds and copper nickel. Again when the world economy boomed in the late 1980s the implicit deflator rose dramatically, only to be again followed by a flat period and another boom in the 1990s.

In all these booms and slumps, the Botswana economy was not affected to the extent to which Nigeria suffers from oil price shocks. The fundamental reason for Botswana's success rests on the strategy of National Development Plan (NDP). The NDPs usually take a critical overview of the Botswana economy and society and pay special attention to how key policies and activities of government affect human capital. Most importantly Botswana NDPs set targets for public expenditures in consistent with expected government revenues and the capacity of the economy to develop and sustain human capital in both the rural and urban areas. Botswana NDPs seeks to rule out the possibility of government institutions constituting a source of instability in the economy and society.

Another country which Nigeria can draw lessons from is Norway. In the case of Norway, by the time extraction of oil started in the early 1970s, Norway was an economy with per capita GDP of over US$10,000 (PPP). Norway continue to be "a highly egalitarian society" (Kiiza: *et al*.: 20011: 192, Larsen: 2006: 628). Several factors facilitated the country's successful use of oil wealth. Firstly was the role played by Norwegian social institutions (Larsen, 2006), and secondly, given that Norway was a matured democratic state with a deep-seated culture of accountability; her politicians did not pose any risk of looting public resources as the case is with Nigerian politicians. Similarly, illegal rent-seeking was never entertained in the political culture of the country. Oil resources and revenues could only be accessed through institutional legal means and channels including lobbying Parliament for tax relief or wage increases.

The reverse is the case with Nigeria. Thirdly, Norway had a tripartite social contract between capital, labour and the state elites which is in consonance with the general Scandinavian welfare capitalism. Kiiza (*et al*.: 20011: 192) argues that this approach "resulted in the institutionalisation of equitable distribution of wealth as a societal norm". Regarded as 'Norway's distributive justice', this approach was made possible by a Norwegian "national norms that protected citizens against the vagaries of free markets, or *de-commodification"* (Kiiza: *et al*.: 20011: 192). De-commodification is a process through which "individuals, or families, can uphold a socially acceptable standard of living independently of market participation" (Kiiza, 2006:271). This system enabled Norway to avoid conflicts over distribution. As Larsen (2006: 269) states:

> When the public sentiment is one of satisfaction with and acceptance of the way society is organised, each individual feels less inclined to participate in conflicts such as strikes, sit-downs, or walk-slows. In Norway, laborers appeared content with the visible economic growth, knowing that profits would be ploughed back into growth. The perception was that resource revenues were used to the benefit of all, in investments, technological advance, and education (Larsen: 2006: 269, cited in Kiiza *et al.*: 20011: 192).

Finally and not the least, Norway institutionalised the rule of law and developed a judicial system that had the capacity to "detect, determine and deter theft of official resources" (Kiiza *et al.*: 20011:192). On the contrary, Nigeria is a country where theft, illegal, primitive accumulation and outright stealing of public oil wealth have become the norm. Norway's creation of a Special Petroleum Fund and accumulated reserves for the economy abroad was encouraging as this initiative enabled the country to circumvent the negative expectations from oil abundance. By contrast the Nigerian defunct Nigerian Petroleum Fund (PTF) under the Abacha regime failed to deliver due to deep-seated official corruption (Ogbeidi: 2012, Adesote, *et al.*: 2012).

Concluding Remarks

From the foregoing analysis, it is clear that extractive enclave economies in Sub-Saharan Africa can experience sustainable economic growth and Structural Transformation as the case is with Botswana and Norway. However, the pre-condition for extractive enclave economies to be successful rest on the ability of political and other strata of the state elites to facilitate the development of social institutions that are accountable to the people.

Nigeria needs to pursue a conscious policy of managing oil booms and slumps by borrowing from Botswana's social, economic and political institutions capable of protecting the oil windfalls and ensuring sustainable human capital development and wellbeing of majority of the citizenry.

From the foregoing, we can no longer keep lamenting that natural resources often undermine economic growth in developing countries. Nigeria should re-direct research and analytical energies on how natural resources can be prudently managed in ways that engineered growth and prosperity in the country. Policy makers in Nigeria should seek to provide answers to why resource abundance countries like Botswana produced incredible economic and developmental outcomes for her citizens. Our search for answers should x-ray factors such as cross-national differences in the quality and capacity of domestic institutions as well as national elites' values and commitment to national development. This is because "when the domestic institutions are 'grabber-friendly,' the benefits of resource abundance are reaped by a few state elites in alliance with foreign (oil) companies" (Kiiza, *et al*; 20011: 191).

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