

**MANAGING OIL REVENUES FOR SOCIO-ECONOMIC DEVELOPMENT
IN NIGERIA: THE CASE FOR COMMUNITY-BASED TRUST FUNDS**

**A THESIS
SUBMITTED TO THE
STANFORD PROGRAM IN INTERNATIONAL LEGAL STUDIES
AT THE STANFORD LAW SCHOOL,
STANFORD UNIVERSITY
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF
JURIDICAL SCIENCES MASTER**

**By
Emeka Duruigbo**

May 2004

Post marked 5-304

REGISTRAR'S OFFICE

MAY 06 2004

STANFORD LAW SCHOOL

ABSTRACT

The commercial exploration and exploitation of oil and gas deposits can be a source of immense wealth for countries embarking on the venture. However, it is also fraught with multifarious consequences as the case of Nigeria amply demonstrates. Nigeria has experienced the effects of the resource curse. Members of Nigeria's oil-producing communities have borne the greater burden of oil production, directly suffering social, economic and environmental problems. Different financing mechanisms introduced by the Nigerian government and oil corporations for ameliorating these problems and improving their plight have not been very effective. It is imperative to design institutions and arrangements that prudently manage oil revenues meant for oil-producing communities for their socio-economic development. Community-based trust funds are presented here as representing viable, innovative alternatives.

TABLE OF CONTENTS

INTRODUCTION	1
CHAPTER 1: OVERVIEW OF NIGERIA AND ITS PETROLEUM INDUSTRY	8
I: NIGERIA	8
II. PETROLEUM IN NIGERIA	9
A. Petroleum Resources and Exploitation	9
1. Crude Oil in Nigeria	9
2. Natural Gas in Nigeria	11
B. Contractual Arrangements in the Nigerian Petroleum Industry	22
1. Joint Ventures	22
2. Production Sharing Contracts	24
3. Risk Service Contracts	26
C. Regulation of the Nigerian Oil and Gas Industry	27
1. Petroleum Law	27
2. Maritime Law	28
3. Environmental Law	31
4. Natural Gas-Specific Law	36

CHAPTER 2: THE RESOURCE CURSE PHENOMENON	38
I. CONCEPT	39
II. WHAT CAUSES THE CURSE?	46
A. Social Explanation	46
B. Economic Explanations	48
C. Political Explanations	50
D. The Role of Institutions	54
III. PROPOSALS FOR ADDRESSING THE RESOURCE CURSE	57
 CHAPTER 3: RESOURCE CURSE IN NIGERIA	 60
I. PETROLEUM AND THE NIGERIAN ECONOMY	63
A. National Economy	63
B. Local Economy	69
II. ENVIRONMENTAL IMPACT OF OIL PRODUCTION	70
III. SOCIAL CONSEQUENCES OF PETROLEUM	
DEVELOPMENT	72
IV. CONCLUSION	74
 CHAPTER 4: PUBLIC AND PRIVATE INITIATIVES TO ADDRESS NEGATIVE	
IMPACT OF OIL AND GAS PRODUCTION	76
I. PUBLIC INITIATIVES	79
A. Oil Mineral Producing Areas Development Commission	
(OMPADEC)	79
B. Niger Delta Development Commission (NDDC)	80
C. Evaluation of Public Initiatives	86

II.	PRIVATE INITIATIVES: CASE STUDIES	94
	A. ChevronTexaco	94
	B. Royal/Dutch Shell	100
	C. Other Corporate Arrangements	104
III.	CORRUPTION AND PUBLIC PARTICIPATION	105
	A. Corruption	105
	B. Public Participation in Decision-Making	109
IV.	CONCLUSION	112
	CHAPTER 5: ADDRESSING THE RESOURCE CURSE THROUGH TRUST FUNDS	113
I.	THE CONCEPT OF TRUST FUNDS	114
II.	CHAD REVENUE MANAGEMENT PLAN	118
	A. Chad-Cameroon Oil Pipeline Project	118
	B. Features of the Revenue Management Plan	121
III.	LOCAL TRUST FUNDS	131
	A. Case for and General Features of Local Trust Funds	131
	B. Key Features of Proposed Trust Funds	135
	C. Benefits of Local Trust Funds	138
	D. Prospects for Local Trust Funds	142
IV.	CONCLUSION	145
	CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS	147