International Journal of Research in Humanities and Social Studies
Volume 2, Issue 8, August 2015, PP 38-42
ISSN 2394-6288 (Print) & ISSN 2394-6296 (Online)

The Resource Curse in Nigeria: Lessons and Policy Option

Ijere Thomas Chukwuma

Institute of Public Policy and Administration, University of Calabar, Calabar-Nigeria

ABSTRACT

There is a body of empirical evidence in the literature on the impact of natural resources abundance on socioeconomic underdevelopment in resource-rich countries. In some of the resource rich countries, policy efforts are already on ground towards creating national distribution programs from the resource revenue for the benefit of the populace in order to escape the negative impact that comes with hug natural resource rents. In Nigeria, the natural resource governance mechanism still leaves much to be desired. Mismanagement and corruption remains high while Nigerians wallow in poverty amidst plenty. This study examines natural resource wealth and the governance mechanisms in Nigeria. I follow the argument that oil wealth in Nigeria is rather a curse than a blessing on both livelihoods and the economy. Against this backdrop and drawing lessons from history, I identify policy options as a redirection for the future.

Keywords: Resource curse, Nigeria

INTRODUCTION

Across Africa, about fifty of the fifty five countries are either producing or exploring for one natural resource or another. Yet, as elsewhere, the potential of these natural resources have been largely squandered. Sadly, instead of delivering a better life for the poor, it has led to an elite capture with economic and social benefits associated that only a few elite enjoy. Nigeria represents one of the group of countries where rich natural resource deposits and rents have not translated to inclusive growth, development and a better life for the people. Since independence, Nigerians have continued to struggle with social and economic hardships occasioned among other things by bad governance, poor fiscal social contract, failed policies, a corrupt political class and over reliance on natural resource (oil).

Huge oil rents as well as the recent rise in economic growth statistics have not translated into improved quality of life for Nigerians and over all national development. Presently, provision of public goods remains at the lowest level with over eighteen states of the federation struggling to finance wages, pensions and other financial obligations as the country struggles with external balance and public finance challenges resulting from falling oil price and sickening political corruption. Oil represent the life wire of the Nigerian economy. Unfortunately, the poor governance of the money spinning natural resource locates Nigeria in the narrative of the resource curse- a concept that explains the paradox of natural resource wealth not being beneficial to the general populace or economy of the resource rich country.

In Nigeria, oil money has sparked some of the biggest national corruption scandals. Unfortunately, even the return of democratic institutions and reform efforts like the Excess Crude Account, Sovereign Wealth Fund, Oil and Gas Implementation Committee of 2000, National Oil and Gas Policy 2004 and the contentious Petroleum Industry Bill (PIB) as well as transparency effort spearheaded by Nigerian Extractive Industries Transparency Initiative have had minimal impact since emphasis is more on revenue collected rather than the distribution of income and public expenditure. Against the backdrop of the resource curse while drawing lessons from history, empirical studies and other efficiently managed, fiscally disciplined and accountable resource rich countries, this study briefly examine the resource curse and natural resource governance mechanisms in Nigeria and identify policy options that can be considered in the long term.

Address for correspondence:

ijere4real@yahoo.com

NIGERIA: OIL AND NATURAL RESOURCE GOVERNANCE MECHANISMS.

Oil exploration in Nigeria started on June 5, 1956 after Shell-BP struck the ''curse'' while drilling at Oloibiri in present day Bayelsa State south-south Nigeria. Fifty nine years or half a century on, Nigeria has raked over 800 billion US dollars in oil rents, yet, poverty, continue to ravage over 60 per cent of her over one hundred and seventy million population. As an economy, Nigeria is not exempted from problems of microeconomic stability, growth and infrastructural deficit. Oil revenue and successive oil booms have only led to wasteful spending, corruption and what many have referred to as the natural resource curse. As a federating unit, oil rents are shared between the three tiers of government (Federal govt 52.68%, States- 26.72% and Local Govt- 20.6%). Within this framework of revenue sharing, those in power still complain that there is inadequate funds to finance public services-education, health, and critical infrastructure. However, the Economic and Financial Crimes Commission (EFCC) on the other hand reported that just between 2009 and 2013, 0ver US $25.4 billion was siphoned out of Nigeria. Corruption in Nigeria's natural resource governance structure and mechanisms cannot be overemphasised. One of the dangerous ills of the status quo is the poverty and widening gap of inequality between the rich and the poor. The danger, like revolutions in history-Russian, Chinese, French, US and more recently the Arab Spring have shown is that Nigeria is threatened by poverty and mass unemployment. Contemporary Nigeria seems a fertile ground for popular revolt if the current inequality situation is not addressed.

Conceptually, natural resource governance constitute the norms, institutions and processes that determine how power and responsibility are exercised, how decisions are taken, and how citizens participate in the management of natural resources. According to the Natural Resource Governance Institute-Resource Governance Index (RGI), three mechanisms commonly used to govern natural resources-oil, gas and minerals include- state –owned companies, natural resource funds and subnational revenues. In Nigeria, these three mechanisms are currently in use. Nigerian National Petroleum Corporation (NNPC) is the autonomous state owned company that manages the bulk of Nigeria's oil. Controversy over the secrecy of its dealings, business conduct and administration of the subsidy regime has invited many criticisms on the corporation. If the successive corruption scandals that have rocked the corporation and its inability to maintain refineries and provide petroleum products is taking into consideration, there would be no gainsaying the fact that the state-owned corporation has failed in managing Nigeria's oils resources for the benefit of Nigerians.

Again, in attempt to ensure fiscal security, a Sovereign Wealth Fund was created in 2011 with one billion dollars in seed money. There is also the Excess Crude Oil Account which receives revenue from oil extraction. Structurally, the Central Bank and the Ministry of Finance oversee the account, however in practice, the president has substantial control over deposits and withdrawals. Conflicting political and policy positions between the federal and state governments over stoppage of payment into the excess crude account and less emphasis on the Sovereign Wealth Fund has constituted a challenge towards national saving. The conflicting position and the legal battle instituted by the state governors against the federal government have made sharing of the excess crude funds a preferred tradition. And this has reduced the capacity of the economy to withstand financial shocks resulting from falling oil prices. Furthermore, the National Assembly stance on oil bench mark in the budget over the last years scuttled the possibility of saving by refusing a conservative budgetary oil bench mark that would have provided savable oil rents.

Another resource governance mechanism in the management of Nigeria's oil rents is subnational transfers. Subnational transfers represent the thirteen per cent derivation that oil-producing states receive in addition to their share of the revenue allocation. Although, the Ministry of Finance publishes information regarding these transfers, accountability challenges and the lack of meaningful socioeconomic impact in the oil producing states remains a concern.

A critical examination of the impact of these natural resource governance mechanisms in Nigeria suggest that more is still left to be desired. Current national financial challenges clearly shows that Nigeria is not safe with this status quo. Therefore, strengthening, reforming and reshaping the present resource governance structure while considering proposals for the future is necessary.

RESOURCE CURSE

In many countries in Africa and elsewhere, hard, soft, point and non-point natural resource provide huge rents or revenue for the state. Rents are the differences between the cost of production of a natural resource and what is actually received in monetary or financial terms. The underutilisation, misappropriation and wastage of the rents that accrue from the natural resource leads to less growth and development and is variously referred to as the resource curse. The resource curse can also be seen as a situation where natural resource rich countries do not get the economic and social benefits of the wealth generated from the exploration or mining of the natural resource (Costa and Santos, 2013). Empirical evidence abound, demonstrating that exploration of natural resources do not improve economic growth or reduce poverty. Gelb (1988) in his study show how increases in oil prices in the 1970s fail to improve the social and economic conditions of oil rich countries. Sachs and Warner (1999) also demonstrate how countries rich in natural resource wealth struggle in other productive sectors of their economy like manufacturing. Bacon and Tordo (2006) and Mehlum et al (2006) attribute the resource curse to factors like increase in real exchange rate that causes depression in other productive sectors of the economy, weak institutions, corruption and dependence on rents from the natural resource. Sadly, this narrative resonates in many resource rich countries in Africa and elsewhere.

THEORETICAL FRAMEWORK

The theoretical position for this study is drawn from the work of Moore (2004, 2007) Devarajan et al (2011) and Moss (2012). Their argument produces a framework for a renewed, accountable fiscal social contract between resource rich states and their citizens. These scholars had theorised that the dependence of governments on taxations for fiscal spending or expenditure rather than by resource rents accruing directly to the government is more likely to be scrutinized by citizens. Natural resources and the revenue they provide allow state authorities to increase budget spending without needing to raise taxes on citizens (Gaidar, 2006). Meaning, there is no need for state-citizens dialogue. State-citizens dialogue and engagement are historically believed to be the foundation for building institutions that check power and guarantee rights and freedoms, while establishing rules of the game mechanism of economic growth. It is argued also, that enhanced citizens scrutiny is associated with more efficient government spending decisions and accountability is stronger in countries that rely more on taxation to finance public spending. Natural resource opulence by undermining democratic structures and accountability leads to relative poor performance of resource-rich economies (Auty, 2004). In Nigeria, huge non tax revenue implies less state-citizens engagement. And state-citizens engagement is important for answerability and accountability. In this scenario, Moss (2012) argue that distribution of natural resource rents to citizens can provoke, motivate and create space for state-citizens dialogue, engagement and scrutiny thereby improving accountability and quality of life.

LESSONS

What is the fate of states who depend on revenue from natural resources without making the best policy decisions? Sixteen century Spain over reliance on revenue windfall from natural resources is a classic example of how natural resources can become a curse when the best policy decisions are not taken. Discovery of gold and silver deposits, its extraction, influx from America and high demand in the rest of Europe brought price increases and provided huge resources for military spending (Gaidar, 2006). As prices for the commodity rose, this eventually reduced competitiveness of Spanish agriculture and for decades, what is known today as modern Spain was importing food products (*ibid.)*. At the end of the sixteenth century when the precious metal flows from America slowed down and the richest silver deposits exhausted, higher domestic prices had reduced government income and the Spanish budget in real terms. The government ended up taking large debts leading to a trail of bankruptcies. In 1557, 1575, 1598, 1607, 1636, 1647, and 1653 the Spanish state declared itself unable to pay its debts. The authorities responded by regulating the tax system, increasing taxes on wool export, reducing budget expenditures and reducing the state bureaucracy. But the policy options were not sufficient to restore economic order and finance military expenditure needed to preserve the empire. This Spanish example shows how an economy can collapse under disproportionate ambitions and policies based on over reliance on natural resource rents.

Another example is the Soviet Union economy crisis of the late 1980s and early 1990s and the eventual collapse of the USSR, which was also closely connected to developments on the oil market. When the Iran-Iraq War broke out in in 1980, oil production in both countries reduce and prices skyrocketed. Within this period of high prices, the Soviet government did not create hard currency reserves for use in times of trouble on the oil market. Counting on oil prices, the USSR was okay with having enough to spend and meet trade needs. With dwindling oil prices in the following years came challenges of meeting domestic needs, maintaining the empire and helping foreign socialist countries. By 1985 profound economic crisis began to hit and against the backdrop of falling oil prices and the continuity of the policies of previous decades, the walls came down no Soviet Union, Communist Party and the Soviet economic system (Gaidar, 2006).

Furthermore, in Holland, the discovery of large natural gas deposits in the North Sea in the 1960s led to what analysts refer to as the Dutch disease-exchange rate issues and the hurting of other productive sectors of the economy following gas export boom. Elsewhere in 1982 Mexican authorities were forced into devaluation of the peso in the wake of devastating economic impact of falling oil prices. However, in highly developed and democratic Norway, strong democratic institutions and relatively uncorrupt bureaucracy have provided the basis for accountability and transparent management of oil rents. Unfortunately, strong democratic institutions and a culture of accountability are all scares in emerging democratic resource rich countries in Africa. In the absence of institutional checks and balances in largely patronage based political system with a rent seeking elite, a policy redirection is worth considering in natural resource rich states.

POLICY OPTION

Among other factors, state building is a product of engagement between the state and organised groups or citizens in their territory. In Nigeria, because the government raise public finance majorly through oil rents, state-citizen engagements and bargain are largely absent or in most cases weak. Karl (2007) identifies participation deficit; a lack of connection between citizens and the state, which breaks any sense of ownership of public resources or consequent citizens engagement as one of the biggest challenges of oil-rich economies. As Moore (2007) noted, since governments in oil-rich countries do not rely as much on revenue raised by taxing their citizens, they are not held as accountable as their counterparts in resource poor countries. According to Devarajan et al. (2011), setting up an interaction usually referred to as fiscal contract between citizens and the state with the former holding the latter accountable is key to ensuring accountability in resource-rich countries. State building is shaped by state-society engagement, and taxation is a strategic nexus between the state and society.

To create the platform for these engagements (state-citizen), Nigeria can consider the direct distribution of oil revenue to citizens to encourage a fiscal social contract in what Moss et al (2015) calls oil to cash. Oil rents can be distributed directly to citizens and taxed by government. With a stake in government's budget process, Nigerians could then begin to hold government accountable for service delivery. Apart from improving the social contract, evidence exist that direct distribution of resource revenue can reduce chronic poverty and inequality, boost consumption and stimulate local businesses and economy and also increase school attendance and health care visits (*ibid)*. As a policy, this can be considered in the long term. For example, the US state of Alaska pays an annual oil dividend to its citizens in return to encouraging citizens oversight. Mexico, Brazil and South Africa already have large scale cash transfer programs. Bolivia and Mongolia are also already using their mining and gas revenue to fund national cash transfer programs. This long term policy option is important in the sense that it will improve taxation, state-citizen engagement and prevent situation where the discharge of budgetary obligations and the preservation of financial stability depends on the dynamics of the market price of a commodity that no one can control. Moreover, this policy option will be politically popular and would boost incentives for citizens to hold government accountable. This policy option represent a futuristic alternative in repositioning the Nigeria's oil sector and rechanneling Nigeria's oil wealth for fiscal security and the benefit of all.

In the immediate, a strict budgetary policy and reduction of recurrent expenditure must be hurriedly considered. If government's recurrent expenditure is not sharply curtailed with decreasing oil prices, Nigeria could face budget crisis. The Sovereign Wealth Fund, one of the resource governance mechanism introduced should have deposits made consistently in good times and be transparently well managed with withdrawals supervised by the national assembly. The Norwegian stabilization fund, Kuwaiti Reserve Fund, the Fund for Future Generations, and the State Reserve Fund in Oman are all similar institutions. The motivation for these institutions is an understanding of the seriousness of the risk related to reliance on unstable budgetary revenue from natural resources (Gaidar, 2006).The strengthening of institutional and legal setting-legislative function of executive oversight is also crucial. Apart from monitoring and ensuring clarity in the revenue collection system, accountability must also be ensured at the expenditure end of the natural resource revenue chain.

Countries like Norway and Peru using freedom of information laws have enabled the provision of comprehensive information on their mining and petroleum sector thereby ensuring accountability. On the part of the executive arm of government, Revenue Watch Institute encourage governments to extend transparency and accountability standards to state-owned companies and natural resource funds, improve the rule of law and guarantee civil, political rights and press freedom.

CONCLUSION

Many commentators and organisations have prescribed more transparency and accountability in the management of oil revenue in resource rich countries as a panacea for solving the challenges of mismanagement. Efforts like the Extractive Industries Transparency Initiatives, IMF guide on resource revenue transparency among others, have achieved little because these mechanisms do not address upstream activities, such as procurement, which constitute a significant part of the value chain in oil and gas, nor does it cover the distribution of income and public expenditure stemming from the extractive industry revenue Kolstad and Wiig (2009). In this study, I have briefly examined the existing natural resource governance mechanisms and structure in Nigeria and proposed a policy option for the future. The proposal is such that has the potential to address the accountability question, improve livelihoods, reposition state institutions and transform the political economy of Nigeria. If the welfare of the people is truly the reason for governance, then managers of the state must begin to consider an alternative way of making Nigeria's oil wealth beneficial to all.

REFERENCES

Auty, R.M. (2004) Resource Abundance and Economic Development. Oxford University Press.

Bacon, R. and Tordo, S. (2006) Experiences with oil funds: Institutions and financial aspects. Energy sector management assistance program (ESMAP). The International Bank for Reconstruction and Development/ The World Bank. Washington DC.

Costa,H.K.M and Santos, E.D (2013) Institutional Analysis and the ''resource curse'' in developing countries. Energy Policy, 63.

Devarajan, S., Helene, E., Tuan, M., and Gael, R. (2011)'' Direct Distribution, Taxation and Accountability in Oil-rich Economies: A proposal. Centre for Global Development Working Paper 281, Washington DC.

Gaidar, Y. (2006) Collapse of an Empire: Lessons for Modern Russia. Brookings Institution Pres, Washington D.C.

Gelb, A.H. (1988) Oil Windfalls-Blessing or Curse? Oxford University Press World Bank Research Publication.

Karl, T.L. (2007) Ensuring Fairness: The case for a Transparent Fiscal Social Contract in Escaping the Resource Curse (eds.) New York: Columbia University Press.

Kolstad, I. and Wiig, A. (2009) Is Transparency the Key in Reducing Corruption in Resource-Rich Countries? World Development 37(3).

Moore, M. (2004) Taxation and the political agenda: north and south. Development Studies, June (1).

Moore, M. (2007) How Does Taxation Affect the Quality of Governance? IDS Working Paper No. 280.

Moss, T. (2011) '' Fighting the Resource Curse through Cash Transfer''. Centre for Global Development Working Paper 237.

Moss, T. (2012) The Governor's Solution: How Alaska Oil Dividend could work in Iraq and other Oil-rich Countries. Centre for Global Development, Washington D.C.

Moss,T., Lambert, C., and Majerowicz, S. (2015) Oil to Cash: Fighting the Resource Curse with Cash Transfers. Centre for Global Development Books.

Mehlum,H., Moene, K., and Torvik, R. (2006) Institutions and the Resource Curse. Economic Journal, Oxford, 116.

Sachs, J.D. and Warner, A.M. (1999) The big push, natural resource booms and growth. Journal of Development Economics, 59.

REPORTS

Natural Resources Governance Institute- Resource Governance Index.