THE CHALLENGES OF THE RESOURCE CURSE IN NIGERIA

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INTRODUCTION

“Resource Curse” is the term widely used in economic and development literature to refer to the paradox of countries with abundance of natural resources having less economic growth than countries without natural resources. It is a term used to describe a situation where countries endowed with natural resources are not able to use such wealth to grow their economies, raise the standard of living of the citizens and engender development..

Globally,” this disconnect between natural resources wealth and economic growth can be seen clearly by looking at an example from the oil producing countries. From 1965 to 1998, in the OPEC countries, gross national product per capita growth decreased on average by 1.3% while in the rest of the developing world, per capita growth was an average 2.2%”[1]

It is however important to clarify from the outset that it is not the abundance of natural resources per se in these countries that is the problem. Rather, it is the use or better still the misuse to which these resources and the revenues accruing from them are put , resulting in what should actually be a blessing turning out to be a curse that has led to the theory of resource curse. If all variables were constant, the abundance oil, gas, solid minerals and other natural resources in a country should be a blessing and not the curse that it has turned out to be in these countries.

THE CASE OF NIGERIA

Nigeria qualifies as one of the countries where the theory of resource curse is applicable. It has abundance of oil and gas from which she has derived stupendous revenue but these revenues have not been used for the benefit of the country and the citizens; hence the country remains in an embarrassing state of underdevelopment while majority of the population live below the poverty line.

Oil accounts for about 85 percent of Nigeria’s revenue. Between 1965 and 2000, the country is said to have earned over USD 350 billion from in oil revenues alone. But this did not add to the standard of living of the people but rather actually contributed to its decline, Xavier Sala-i-Martin and

[1] Gylfason,Thorvaldur (2000) Natural resources, education and economic development-CEPR Discussion Paper2594.

Arvind Subramanian cite the following as evidence in support of this position.

The country's GDP was US$1,113 in 1970 but 1,089 in 2000, making the country one of the 15 poorest nations in the world. Poverty rate, interpreted as the share of the population living on less than one dollar a day, rose from about 36 percent in 1970 to more than 70 percent at present. They state that: "In 1965 when oil revenues per capita were about US$33, per capita GDP was US$245. In 2000 when oil revenues were US$325, per capita GDP remained at the 1965 level."[2] They go further to declare that 'where as in 1970, the top 2 percent and the bottom 17 percent of the population earned the same amount of income, in the top 2 percent had the same income as the bottom 55 percent."[3] In other words, income distribution deteriorated sharply, leaving more money in the hands of a tiny fraction of the population and less money in the hands of a wider segment of the population.

There are several frightening social indicators that bear out the submission that Nigeria has not used her oil wealth to any significant advantage to the country and the citizens. Take its education profile as an example. Adult literacy rate in the country is put at 54 per cent, with male literacy rate standing at 64.7 per cent and female literacy at 43.6 percent. The county's health profile is not any inspiring. Life expectancy is a mere 52.2 years for women and 49 years for men.
Infant mortality rates are 121 deaths per 1,000 live births in the rural areas and 81 deaths per 1,000 live births in the urban areas; maternal mortality stands at 8-15 per 1,000 live births. One in nearly five children die before the age of five and there are nearly two million AIDS orphans. And as at 1999, only 36 per cent of the Nigerian population had access to safe drinking water.

A look at the electric power sector further underscores the position that Nigeria's natural resources have become a curse rather than a blessing to the country. But before doing so, it is necessary to mention in passing that Oloibiri, the town in Rivers State where oil in commercial quantity was first discovered in the late 1950s and where extensive production activities had been going on over the years, has just had its first taste of electric power supply this year as it has just been connected to the national grid. The entire Bayelsa State, which ranks among the top three of the nine states from where oil is got in the country, is only being connected to the

[2] Xavier Sala-i-Martin and Arvind Subramanian, Addressing the Natural Resource Curse: An Illustration from Nigeria, IMF Working Paper, July 2003, p.4

[3] Xavier Sala-i-Martin and Arvind Subramanian, op cit, p.4

national grid now. All over the years its only source of electricity supply had been aged gas turbines and generating sets. The table below supplied by the Manufacturers Association of Nigeria (MAN) shows the place of Nigeria in World Power Output.

Beyond the table, perhaps nothing better describes the electric power situation in the country better than the fact that in 1999, the National Electric Power Authority, now Power Holding Company of Nigeria generated only 1,500 megawatts of electricity for the whole country .Since then a new impetus has been witnessed in the sector, resulting in the budgetary allocation of N344.8 billion to the sector between 2001 and 2006. The allocations were spread out as follows: 2001-N60.5 billion, 2002-N38 billion, 2003-N30,5 billion, 2004-N54.6 billion; 2005-n75.0 billion ND 2006-N75.8 billion. The target is to ensure that the country generates 10,806 megawatts of electricity by December 2007. All this in an attempt to ensure that the country can generate 10,108 megawatts of electricity for its estimated more 130 million people whereas as the table shows, countries with far less that population have long surpassed that level.

Country	Population(July 2004 Estimate)	GDP(PPP) US$ (2004 Estimate)	GDP Per Capita(PPP) US$ (2004 Estimate)	Electric Energy Production Billion Kwh (2001 Estimate)	Electric Energy Consumption Billion Kwh
U.S.A.	293,027,541	10,990	37,800	3,719	3,602
U.K	60,270,708	1,666	27,700	360.9	3,602
India	1,065,070607	3,033	2,900	533.3	497.2
Indonesia	238,452952	758.8	3,200	95.78	89.08
Mexico	104, 939,594	941.2	9,000	198.6	186.7
Brazil	184,101,109	1,375	7,600	321.2	335.9
South Africa	42,718,530	456.7	10,700	195.6	181.2
Egypt	76,117,421	295.2	4,000	75.23	69.96
Nigeria	137,253,133	114.8	900	15.67	14.55

As it is with electric power, so it is with other sectors in the country. Take transportation for instance. The rail system has completely collapsed and the government is only now planning the construction of a standard gauge double railway line to replace the narrow gauge that has been in use since the inception of the rail system in the country as one step towards revitalizing it. The country has only 3,505 km route length of rail tracks covering only 15 out of the 36 states in the country. When this compared with the 62,807 km route length that India has, the level of the country in rail transportation is magnified. Couldn't the country have invested some of the mullions of dollars made from the sale of oil in the modernization of its rail system? Air transport which is regarded all over the world as the safest means of transport has turned out the most risky in the country what with five fatal air crashes involving loss of hundreds of lives in less than two years. Nor are the country's roads any better. As at 2003, only 18.7% and 16.6% of federal and state roads respectively were in good condition. So what happened to the huge profits made from oil?

WHY THE RESOURCE CURSE

So how did things come to this sorry pass? What happened to the billions raked in as oil revenues over the years? Why should Nigeria, with all the revenue it gets annually from natural resources, lag behind in all indices of development? Many explanations have been advanced to account for the phenomenon of resource curse. It has been blamed on the Dutch Disease which natural resource ownership is said to make countries vulnerable to; excessive borrowing; corruption .[4] It has also been blamed on the volatility, particularly in commodity prices, which natural resources ownership exposes countries to, with adverse impact on growth.[5] The paper looks at these and other variables more closely in the following paragraphs and tries to situate them within the Nigerian environment.

THE DUTCH DISEASE FACTOR

The Dutch Disease has been defined as ' a process whereby new discoveries or favourable price changes in one sector of the economy-for example, petroleum-cause distress in other sectors-for example, agriculture and manufacturing-"[6] A country contracts the Dutch Disease when the revenue it gets from the exports of its natural resources

[4] See online http://en.wikipedia.org/wiki/Resource_curse

[5] Xavier Sala-i-Martin and Arvind Subramanian, op cit pp4-5

[6] Magaret Desilier, Capacity Building and Oil exploitation in the Gulf of Guinea in Oil Policy in the Gulf of Guinea: Security& Conflict, Economic Growth, Social Development, Rudolf Traub-Merz/Douglas Yates (eds.) Friedrich Ebert Stiftung, 2004, p.194

deindustralises its economy by causing an increase in the real exchange rate, The increase makes the manufacturing sector less competitive in the world market. When this happens, two things are expected to follow. One, the country's economy is left vulnerable to the price changes in the natural resource as the decrease in manufacturing makes it wholly dependent on the natural resource.. Secondly the economy loses out on the productivity gains that usually accompanies faster manufacturing activities.

Nigeria operates a primary commodity dependent economy and since the discovery of oil in commercial quantities, there has been a near complete abandonment of the agricultural and industrial sectors, regarded as the real sectors. So is Nigeria afflicted by the Dutch Disease? If it is, why has no cure been found all these years since a cure should logically follow a diagnosis?

The position of Martin and Subramanian is that:

"The Dutch Disease explanation for Nigeria is not entirely satisfactory because:

- It is not clear that relative price movements did infact consistently disfavour the tradable sector even in the immediate aftermath of the oil windfall.
- Relative price movements were not correlated with oil prices so that how oil windfalls were used rather than oil prices per se were more important in determining relative prices: infact decisions to keep the official exchange rate appreciated were to a great extent related to the need to create rents (via black market premium) when oil revenues were in decline. Thus exchange rate policy was itself endogenous and driven by rent and fiscal imperatives.
- Sustained movement of relative prices in favour of tradables in the 1980s and early 1990s did not reverse Nigeria's economic prospects.
- Although the role of agricultural sector declined, it was offset by an increase in the size of the government sector in economic activity, and the poor performance of the latter may well be the most important for Nigeria's long term economic decline."[7]

So rather blame the Dutch Disease, it is government complacency that should be blamed. Why has Nigerian governments neglected or delayed the diversification of the economy? Or rather why has Nigerian

[7] Xavier Sala-i-Martin and Arvind Subramanian, op cit, p.17

governments repeatedly paid lip service to economic diversification? Disilier has proposed that:

"The answer to the Dutch Disease phenomenon is a diversified economy in which other sectors have a solid base and are striving to be as competitive as the oil sector. Diversification of the economy requires an enabling environment for investments so that new enterprises could be established. It also requires investments in health, education and other social sectors. One of the most crucial factors for business growth is qualified manpower, In a situation where nationals lack the expertise to promote new business concerns adapted to each country's socioeconomic environment, over dependence on the oil sector is inevitable and this is suicidal to the economy."[8]

Though the need for the diversification of the Nigerian economy has long been recognized and touted by successive governments as a priority issue. Nothing much in concrete terns has been achieved. Take the agricultural sector for instance.. It is well known as a key sector where between 60-70 percent of Nigerians are involved. The National Economic Empowerment and Development Strategy (NEEDS), the country's current blue print for growth, economic development and poverty has identified it as one of the sectors that hold the key to the realization of its goals. It therefore targeted that the sectors share of the overall federal capital budget should be 4 percent. This target was not met in the 2005 and 2006 budgetary allocations to the sector. Governments the private sector, already largely constrained by several factors, to largely provide the impetus needed to achieve its goals in this sector.[9]

The manufacturing sector is not faring any better. Buffeted by dumping, chronic power outages, bad roads, red-tapism and corruption at the ports, multiple and excessive taxation in some states ,a shrinking market brought about by low purchasing power of consumers among other constraints, industrial capacity utilization in the country has for years now been under 50 percent.

EXCESSIVE BORROWING

Here again we are confronted with another paradox: a country that is getting enormous revenues from the exports of its natural resources still

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8 Magaret Desilier, op cit, p.195

9 See African Institute for Applied Economics, Analysis of the 2006 Federal Government Appropriation Bill (Budget Proposals), Thematic Area: Agriculture, A Background Paper Prepared to inform the advocacy for budget transparency and monitoring by the Budget Transparency Network (BTN), January 2006

indulges in borrowing. In the case of Nigeria, the country was so heavily indebted that at a stage it could no longer pay the principal without neglecting the fulfillment of its basic financial obligations such as payment of its employees salaries and allowances. So it repeatedly negotiated postponement of payment of the principal and rather resorted to spending huge sums to service them.When a government devotes a substantial percentage of its resources to debt repayment, it follows that provision of social, infrastructural and other services would be neglected.

According to Dr Mansur Muhtar, Director General of Nigeria's Debt Management Office, "Nigeria's total public debt stood at US$37,435.29 million as at end December 2001. It steadily rose to a peak of US$46,259.45 million by December 2004 before it declined to US$32,306.73 million by the end of 2005 due largely to the partial application of the Paris Club exit deal and to US$16,926.42 million by the end of June 2006. This comprises an external debt figure of US$4,847.47 million and a domestic component of US$12,078.95 million."[10]

Two questions immediately arise here. The first question is why did Nigeria borrow so much even when so much was coming into its coffers as revenue from oil? The second is to what use were this borrowed funds put? The answer to the first question is that:

"Since governments expect more income in the future , they start accumulating debt, even though they are receiving oil revenues as well. This is encouraged, since , if the real exchange rate increases, through capital inflows or the Dutch Disease, then this makes the interest payments on the debts cheaper. However, if oil prices begin to fall, and if the real exchange rate falls, then a government would have less money with which to pay a relatively more expensive debt."[11]

The answer to the second question is simple. The borrowed funds were not put to good use. They were largely looted. If such funds were diligently spent on the projects and programmes for which they were borrowed, the transformation in the economic, social , industrial etc landscape of the country would have lifted Nigeria out of the pit of underdevelopment. Considering the fact that these loans were incurred not by the Federal Government alone but also by state governments across the country their proper use would have spread growth and development across the country Thus the debts that have hung over Nigeria's debt qualify for what in

[10] Address by Dr Mansur Muhtar at the Second Nigeria National Debt Strategy And New Financing Analysis Workshop, Abuja, October2,2006

[11] http://en,wikipedia.org/wiki/Resource_curse

contemporary literature is referred to as odious debt because they were incurred by illegitimate regimes such as those that came to power through undemocratic means and were not used for the benefit of the people.

CORRUPTION

There are many people who would applaud the proposition that natural resources is a curse in Nigeria not because there is anything evil about Nigeria/s oil but because everything about it takes place in a corrupt environment. The explanation is that with the revenue available from oil governments in the country have always found it easier to through bribery and use of force than through growth –oriented economic policies. The governments find less need to build up the institutional structures needed to regulate a productive economy. Martin and Subramanian call this phenomenon stunted institutional development which they say is a “catch all term for a range of related pathologies including corruption, weak governance, rent seeking and plunder” which are all intrinsic in most natural resources endowed countries.

The two scholars discuss two major “effects” of this stunted institutional development. One is the “rentier” effects where “large revenues from natural resources allow governments to mollify dissent and avoid accountability, insulating governments from pressures for institutional reform.”[12] The second is “anti-modernization” effects where governments successfully thwart pressures for modernization and institutional reform because their “budgetary revenues are derived from a small workforce that deploys sophisticated technical skills that can only be acquired abroad.”[13]

There is no doubt that there is a lot of corruption in the oil industry in Nigeria because for years the financial activities in the industry lacked transparency and accountability. Multinational oil companies operating in the country are being accused of engaging in fraud through tax underpayments, over invoicing etc. The government’s own regulator of the industry, the Nigerian National Petroleum Corporation (NNPC) behaves like a parallel government, operating its own budget and refusing to submit to the national legislature Even now that transparency and accountability have become the catch phrase in government circles it is yet to register any impact in government’s conduct of oil business. A few weeks back, there were disagreements among principal organs of government about

[12] Martin and Subramanian, op cit
[13] Martin and Subramanian op cit

the NNPC not disclosing all oil revenues it has collected on behalf of government. When the country cannot truly say how much has accrued to it as oil revenue from different sources, it means that even managing what has been declared as the revenue will be a problem.

As far as corruption as a factor responsible the paradox of resource curse in Nigeria is concerned, sustained advocacy for institutional reforms is imperative. The reforms needed must be integrated, cross cutting and holistic so as to touch every strata of the society. Already, there are a number of initiatives in place towards achieving this objective. There is the Publish What You Pay Campaign, the Extractive Industry Transparency Initiative . Other mechanisms recommended for deployment towards the enthronement of accountability and transparency in natural resource exploitation are Publish What You Lend, Stolen Asset Recovery, Collaboration with Export Credit Guarantee Agencies, Establishment of Oil Revenue Distribution Funds and of OIL Stabilization and Saving Funds.[14] There is also the very radical solution to the problem proposed by Martin and Subramanian. The two scholars propose that the solution to the problem is to deny government access to oil revenues. Such revenues should be shared directly to the people. The government should then raise its revenues by taxing the citizens and companies as it is done by governments in countries that do not have natural resources endowments. They assert that it is much more difficult to mismanage or misappropriate resources that come from taxes than from rent.

ENVIRONMENTAL DEGRADATION

Oil production in Nigeria is concentrated in the Niger Delta region which is home to some 20 million people. For these people and their ecosystem, biodiversity, flora and fauna, the effect of all production has been devastating. For them, the back gold has really turned out to be a curse. Mostly farmers and fisherfolk, oil production activities have impacted negatively on these livelihoods. They have also had to contend with oil spills, oil well blowouts, ballast discharges and improper disposal of drilling mud, deforestation and gas flaring which all have negative impacts on their lives and environment. Spills and blow outs destroy farm lands,

[14] Thomas i. Palley, Lifting the Natural Resource Curse, Foreign Service Journal, December 2003

pollute streams and destroy aquatic life. For a people who literally live on the waters and in the farms, the effect can be devastating/

These negative environmental impacts can be checked as there are regulations, guidelines and standards in place to ensure that in the execution of oil projects, the protection of the environment is given adequate consideration. But government officials whether in the Federal Ministry of Environment or in the Department of Petroleum Resources, an arm of the Federal Ministry of Petroleum Resources which has since 1991 developed a set of Environmental Guidelines and Standards (EGAS) for the petroleum industry, are not known to be good at enforcing them. On their part, the oil companies operating in the country are said to employ double standards in their operations. What they cannot do in their home countries or in the western world, they do here with impunity. For instance, it is usual for the oil companies to attribute oil spills and blowouts to sabotage by locals so as to attract compensation or draw global attention to their agitation to control their oil and gas .resources. Many times these charges of sabotage, it has turned out, are made so as to escape responsibility for the blowout or oil spill.

SOCIAL AND ECONOMIC IMMESIRETION IN OIL BEARING COMMUNITIES

If oil is a curse to Nigeria and Nigerians as the paper has so far attempted to explain, then it is a double curse to the people in the oil producing areas. First all the “curses” brought about by oil production equally applies to them. Then they have the burden of being recipients of additional curses brought about by oil. Earlier, it had been discussed that oil production wrecks their means of livelihood. This means it oil production contributed to the impoverishment of the locals because ironically, when their means of livelihood is destroyed, they cannot get jobs in the oil sector. Oil sector jobs are scarce because the sector employs few people with specialized skills. Yet living in their midst are the oil sector workers, many of them expatriates, who earn what could pass for outlandish pay and live lives of affluence.

While social intrastructure like roads, electric power, pipe borne water, recreational facilities are not available in many of these communities, usually a stone throw from them would be the quarters of the oil industry workers sparkling with virtually everything that modern technology has introduced into the world. While the locals live hand to mouth, the oil workers are swimming in luxury. It must be admitted though that attempts have begun to made in recent years to check this “apartheid” practice through governments and the oil companies by providing some of the communities with basic services. But a lot still remains to be done.

CONFLICTS

It should be expected that a situation such as the one described above should engender conflicts. Yes, oil is a curse because it has been responsible for several conflicts in the country especially in the Niger Delta region. Nigeria and Cameroon almost went to war over the oil rich Bakassi island. The International Court of Justice decided in 2002 that the island belongs to Camerroon. Nigerians who had known no other place except Bakassi as their homeland and who do not wish to live under Cameroonian jurisdiction or could no longer stand the harassment of Cmeroonian security have had to be evacuated to be resettled somewhere else. To them this is a nightmare they would never recover from. If they had their way, they would wish that the island had no oil deposit.

To begin with, the never and would probably never have benefited from the oil wealth, no matter whether it was exploited by Nigeria or by Cameroon. But now they have been dislocated from their place of birth and separated from their vocations to go and start life anew in a what to them would obviously be a strange land. It should be noted that the government was supposed to rehabilitate this people by providing them with decent temporary accommodation and the wherewithal to start a new lease of life. But government as usual has been foot dragging on this so these "new" Nigerians have had nothing but tales of woe to tell since they returned "home".

In the other parts of the Niger Delta there have been conflicts of the variety described as 'multi-level conflicts."[15] These have taken the shape of the local communities versus oil companies, local communities versus the state and the local communities against one anther. These conflicts have involved bodily injuries, deaths, destruction of property, hostage taking and kidnappings, sacking of entire communities, imprisonment of people, loss of means of livelihood etc. And all of them have arisen because of conflicting interests in access to oil production revenues or because oil production activities lead to the loss or deprivation of means of livelihood and sustenance.

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15 See Thomas A. Imobighe, Conflict in the Niger Delta: AUnique Case or a "Model" for Future Conflicts in Other Oil Producing Communities? In Oil Policy in the Gulf of Guinea, op cit p.103

The communities are in conflict with oil companies because oil production activities devastate their landscape and environment and worse of all, these activities do not create jobs for them. Oil activities employ require few people with specialized skills and as Imobighe has argued, "t… the oil companies have failed to encourage the establishment of ancillary oil related industries in these oil producing communities to absorb the huge army of unemployed graduates."[16] Rather than encourage the local fabrication of some of their equipments, they import everything, leaving the local people in penury. The oil companies would claim that though it is the responsibility of government, to whom it pays taxes and royalties, to empower the people and to develop these communities, it has nevertheless done much by way of provision of schools, health facilities, water projects and educational scholarships in these communities and that rather than being chastised, they should be commended

The conflict between the state and the oil producing communities stems from government neglect of these communities. With so much money being literarily dug out of their backyards, these communities have nothing by way of infrastructure to boast of. Earlier, the case of Oloibiri which is tasting electricity for the first time since oil was discovered there in commercial quantity in 1956, exactly fifty years ago, had been mentioned. Yet it is money from oil got from Oloibiri had been used to electrify many other towns and villages in the country. The money from oil had been used to build roads, bridges and provide other forms of modernized transport in other parts of the country. Yet in the Niger Delta where creeks and swamps abound, people still travel in rickety canoes which capsize every now and then. As it is in the transport sector, so it is in other sectors. Long years of neglect have so impoverished the communities that they see the government as acting in consort with the oil companies to subjugate them. And when aggrieved youths occupy flow stations and the government in response to calls from the oil companies sends soldiers and anti-riot policemen to dislodge them, this belief in collaboration between the government and the oil companies to perpetually keep the communities in bondage is reinforced.

It must be conceded that the re have been attempts by the government to address the problems in this region. For instance, in the 1990s, the Federal Government had set up the Oil Mineral Producing Areas Development Commission (OMPADEC) as an intervention agency and right now there is the Niger Delta Development Commission (NDDC) in place. A certain percentage of the Federation Account is also given money

[16] Imobighe, op cit p.105

to the nine oil producing states based on the volume of oil produced in their territories to be used in addressing the myriad of problems in the oil producing communities. But two problems keep militating against the success of these intervention strategies. One is the well known problem of corruption which makes it impossible for every amount made available for development of the region to be judiciously used for that purpose. The second problem is that the Government hardly ever does what it says it will do.. Funds appropriated for intervention schemes in the region are often times not made available on time, released piecemeal or not released at all.

The most unfortunate dimension to these conflicts arise when the communities turn against each other. They have been several cases of inter and intra communal conflicts in the Niger Delta and they are all traceable to the deprivation that have been visited on the communities by oil production. The deprivation forces them to depend on the oil companies for survival and thiis intensifies intra and inter communal rivalry. Sometimes these conflicts arise when one community feels outsmarted or betrayed by the other in the competition for largesse from the oil companies.[17]

ALLIENATION OF SOME SEGMENTS OF THE SOCIETY IN RESOURCE MANAGEMENT.

Basically, most Nigerians overtime started feeling alienated from the scheme of things. Many people in government have consciously and unconsciously put road blocks on the way of engagement with civil society organisations. They are seen as outsiders who has no business getting involved in government business. There are no formal structures for any form on engagement with people outside of government. This mindset has promoted the rentier state mentality within the socio -economic and political milieu.

The non involvement of this critical stakeholder group has also promoted corruption and undermined government's intergrity.Most people see every action of government as directed towards meeting one self interest or the other, and against the general will of the people.

For most Nigerians, the greatest challenge of our time is determining the extent to which the civil society's involvement would impact on the credibility of government, improve service delivery, improve the standard of living, provide better infrastructural development and ensure that every

[17] See Imobighe, op cit p.109

citizen realises his or her individual aspirations within the protective confines of the state.