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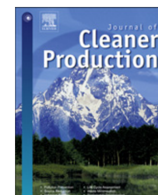

The resource curse and the decentralization of oil revenue: the case of Nigeria

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ABSTRACT

Nigeria is often portrayed as a poster child for countries experiencing the resource curse phenomenon. The pertinent question that confronts policy makers in Nigeria today is no longer whether or not Nigeria is suffering from the resource curse; rather, it is what to do about it. Since the 1980s, various policy initiatives have been adopted by the Nigerian Government to address different aspects of the resource curse but with limited success. It is therefore not surprising that regional governments within the Niger Delta have in recent years turned to Oil Producing Area Development Commissions as a means of reducing the poverty and conflict that is endemic in the region. Drawing on empirical data, this paper argues that the Oil Producing Area Development Commissions have been unable to improve the lives of the people in oil producing communities. It is suggested that this is due largely to their inability to alter the opportunities and incentives for rent seekers and allow for active community and civil society participation. The paper concludes by considering the implications for the resource curse and the way forward for these commissions.

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1. Introduction

The discovery of oil in 1956, and its subsequent extraction since 1958, has over the past 50 years transformed the Nigerian economy from an agricultural based economy to an economy essentially dependent on petroleum. Between 1960 and 2012, oil output exploded from just over 5100 barrels per day to about 2.68 million barrels per day (Ezeah, 2012), and government revenue also rose from N66 million (naira) in 1970 to over N10 billion in 1980 (Watts, 2007).[1] Today, the rentier[2] status of the Nigeria state is emblematic in the fact that oil accounts for 40 per cent of its GDP, 95 per cent of exports and 83 per cent of government revenue. The centrality of oil in national politics, against the backdrop of pre-oil politics, facilitated the full manifestation of the resource curse.

In socio-economic terms, over the period 1965–2004, per capita income fell from $250 to $212. Between 1970 and 2000 the number of people subsisting on less than $1 a day grew from 36 per cent to more than 70 per cent, from 19 million to about 90 million (Shaxson, 2007; Watts, 2007). Income distribution deteriorated, such that 90 per cent of oil revenue accrued to 1 per cent of the population, while between 1960 and 1999 the country lost as much as $380 billion to corruption and mismanagement (HRW, 2007). Watts (2007) noted that in 2003 alone, 70 per cent of the country's oil wealth was either stolen or squandered. Similarly, from 1975 to 1983 capacity utilization in Nigerian manufacturing fell from 77 per cent to 50 per cent, and then to 35 per cent by the mid-1980s, a level from which it has not recovered (Shaxson, 2007). Nigeria is currently ranked 156th out of 187 countries in the UNDP's Human Development Index.[3]

Oil wealth has potentially transformed the state into an effective tool for corruption. Consequently, military coups and counter coups with military dictatorships were the dominant form of government in Nigeria for over 30 years between 1960 and 1999. For example, while the administration of Babangida who ruled between 1985 and 1993 saw the disappearance of $12.2 billion, General Abacha's regime is believed to have embezzled one to three billion dollars. In addition, the advent of democracy in 1999 has seen the use of violence as a means of winning elections and holding on to power. As Idemudia (2009a) explains, conflict in the Niger Delta area where oil is extracted has increased both in intensity and scale. Incidence of oil bunkering, kidnapping and ransom demand, electoral violence, and inter/intra-community violence now occur almost on a daily basis. While views on the resource curse thesis remain polarized (see Obi, 2010), the debate in Nigeria today is what to do about it.

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[1] i.e., from $44,0000 to over $66,666,667 based on $1 = N150.

[2] Rentier state in its broadest sense are countries that receive on a regular basis substantial amount of external economic rent (see Yates, 1996).

[3] http://hdr.undp.org/en/media/HDR_2011_EN_Tables.pdf (accessed 12 may 2012).

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Strategies for remedying the curse, however, remain poorly developed, particularly in Nigeria (Siegle, 2005). It is against this background that this paper seeks to bridge this gap by critically examining the extent to which newly created Oil Producing Area Development Commissions (henceforth oil commissions) in the Niger Delta can improve the livelihood of oil producing communities in the region. The focus on the oil commissions initiated by the different Niger Delta states has theoretical and practical benefits for two reasons. Firstly, while works undertaken by Frynas (2000) and Omotola (2007) have explored the effectiveness of the different federal instituted Development Commissions for the development of the Niger Delta region, this paper represents the first attempt to ascertain the effectiveness and relevance of the different oil commissions established by the Niger Delta states (i.e. provincial government). Hence, there is a possibility to explore the extent to which the state controlled oil commissions are different from or similar to the ones instituted by the federal government. Insight gleaned here will therefore be useful in any effort to better address the resource curse problem in the Niger Delta. Secondly, a focus on the oil commissions also offers an opportunity to assess the extent to which the decentralization of oil revenue that seems to underlie this policy response can be effective against the problems associated with the resource curse. Ross (2007) has argued that while there have been arguments for oil revenue decentralization, there is still no systematic analysis or accumulated evidence to strengthen the case for promoting or determining whether it can ameliorate the resource curse. As a result, he argued that we need to know more about the effectiveness of the different strategies to oil revenue decentralization. The specific objectives of this paper are as follows: (1) To identify the successes, challenges and bottlenecks of the oil commissions in carrying out their mandate, and (2) To consider the extent to which the oil commissions are effective for addressing the resource curse from community perspective.

2. The resource curse and policy response in Nigeria

The resource curse literature is now extensive, and dates back to the early 1990s, as systematically accumulated empirical evidence has suggested that developing countries that are endowed with natural resources tend to underperform economically relative to their resource-poor counterparts (see Auty, 1993, 2001; Sachs and Warner, 1995, 2001; Pegg, 2006a), exhibit low levels of democracy (see Ross, 2001; Karl, 1997; Moore, 2004) and are more likely to suffer violent conflict or war (see Humphreys, 2005; Collier and Hoeffler, 2000, 2005; Le Billion, 2001a,b; Ross, 2004). However, the nature of the resource curse and the causal mechanisms linking natural resources to negative political, economic and social outcomes remain contested. For example, Brunnschweiler and Bulte (2008a) challenged the validity of the resource curse by asserting that the evidence of the resource curse is actually weaker than perceived. They argued that the conventional methodology adopted in the resource curse literature is flawed as it tends to ignore questions of reverse causality and uses inappropriate proxy to measure resource endowment. They further pointed out that when a different proxy is used to measure resource endowment the correlation between resource dependence on one hand and conflict and slow growth on the other vanishes. Similarly, the negative relationship between natural resource and democracy has been partially challenged by Dunning (2008) and completely rejected by Stephen and Menaldo (2011). The latter explains that "our results indicate that oil and mineral reliance does not promote dictatorship over the long run. If anything, the opposite is true".

While Brunnschweiler and Bulte (2008b) suggest that the resource curse is a red herring, Karl (2007) argues that the resource curse is largely a political problem and not an economic one (see also Basedau and Lay, 2009; Obi, 2010; Stijns, 2005; Davis, 1995). Others like Rosser (2005, 2006) and Cramer (2002) have asserted that the resource curse thesis is reductionist, deterministic and often fails to consider the role of social forces or external geopolitical and geo-economic environments in shaping the political economy outcomes in resource rich countries. Similarly, political explanations of the resource curse based on the rentier state theory (see Beblawi, 1987; Yates, 1996; Karl, 1997; Omeje, 2008) have been criticized for not providing testable hypotheses that would refine and sharpen their arguments as well as frame their causal mechanisms in generalized and falsifiable terms (Ross, 1999). Efforts to address these criticisms have led to a closer re-examination of contextual conditions and the exact causal mechanisms that determine whether or not the resource curse will surface, the manner in which it does and what the appropriate policy response should be (Basedau and Lay, 2009; Robinson et al., 2006).

Today, a consensus seems to exist that suggests that it is not just the presence of natural resources that leads to the resource curse; but, it is the governance structures and institutions around the extraction, processing and management of the generated revenues that determine whether natural resources will be a blessing or a curse (Alao, 2007; Idemudia, 2009b; Ackah-Baidoo, 2012).[4] For instance, Robinson et al. (2006) noted that a critical factor linking natural resources and negative political and economic outcomes is the interaction between institutions and resources (see also Mehlum et al., 2006; Collier and Goderis, 2007). Kolstad (2009) has identified private sector institutions (i.e. institutions governing the profitability of productive enterprise) and public sector institutions (i.e. institutions governing resource use and appointment in public sectors) as the two core institutions linking the abundance of natural resource with the resource curse. Hence, efforts geared toward strengthening or establishing institutions that will deter rent-seeking, political patronage and allow public sector accountability will help mitigate the negative effects of the resource curse.

Until recently, suggestions on how to deal with the resource curse tended to focus on appropriate economic policies that include diversifying the economy, adopting sensible macroeconomic policies to avoid the Dutch disease (see Sarraf and Jiwanji, 2001; Humphreys et al., 2007; Sachs, 2007), and reducing the role of the state by privatizing the resource industry (see Ross, 2001). Others have also suggested that natural resource revenues should first be distributed directly to citizens and then taxed by the state as a strategy to reduce corruption (see Sala-i-Martin and Subramanian, 2003; Sandbu, 2006). Karl (2007) has asserted that these suggestions amount to asking resource rich countries to remake themselves. Rosser (2006) believes that these proposals are unlikely to be implemented due to the problem of political feasibility, as it is unclear how the recommended changes are to be brought about; most analyses seem to suggest that they cannot be implemented, at least as long as these countries continue to remain dependent on natural resources. Perhaps the most important criticism of the proposals to address the resource curse, which seem to have also informed more contemporary policy responses to it, is the argument by Karl (2007). According to Karl (2007), most of the recommendations to address the resource curse are not only economic and technocratic, but are also often aimed only at *petro-*

[4] However, Pegg (2006a,b) has argued that this renewed emphasis on governance as a crucial intervening variable between the abundance of natural resource and resource curse risk becoming a form of an elaborate intellectual con game. For example, he argued that while the World Bank is a key proponent of the idea that good governance is essential for avoiding the resource curse, the bank has often failed to integrate minimum quality of governance criteria into its lending decision (see also Ackah-Baidoo, 2012).

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