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Oil Economy, Corruption and Poverty: The Nigerian Experience

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Abstract:
Nigeria is perceived by analysts as a potential giant of Africa. This is attributed to the abundance of natural resources in the country. One of this natural endowments is oil. To be sure, Nigeria is the 8th largest producer of crude oil in Africa. However, paradoxically, the country remains one of the leading poorest countries in the world. Recent Human Index Report indicates that fifty four percent of its population is livingless than the international guideline for extreme poverty of $1 a day. There is a widening gap between the haves and have-nots. This paper within the context of resource curse theory, posits that oil economy is a major source of Nigeria's corruption and socio-economic woes. The study adopted political economy as its framework of analysis. Data were generated from secondary sources such as textbooks, relevant journals and magazines on oil. A content analysis of the data generated revealed that oil economy has thrown up a corrupt dependent capitalist class without entrepreneurial skill who feed fat on this freely given resource at the expense of the teeming majority of disillusioned citizens. It is thus recommended that for Nigeria to experience meaningful development that would impact on its citizenry not only must the oil industry be totally overhauled, other sectors like Agriculture and allied industries must receive priority attention. Moreover, the state anti-graft institutions must be strengthened to be able to arrest the menace of corruption that has become endemic in the polity.

Keywords: *Oil Economy, corruption, poverty, resource curse, development*

1. Introduction

A country's natural resources, ideally are expected to serve as potential elements of state power both politically and economically, that ultimately guarantee high living standards of life of the citizenry, when properly utilized and annexed. However, when they are mismanaged or cornered by a tiny group of elite, they turn to be a curse and thus underdevelopment and penury become the norm.

Nigeria is Africa's most populous country with abundant natural resources, such as natural gas, iron ore, coal, limestone, lead, zinc with oil and gas serving as the major source of revenue. It is Africa's largest exporter of oil and the world's 16th largest producer accounting for more than 2.2 million barrel per day. In 2011 alone, oil revenue totaled $ 50.3 billion and generated 70% of government revenue. The country is said to have earned over a hundred billion dollar between 1960 and 2013(Revenue Watch 2014). Nigeria's size and oil wealth makes it distinct within Africa (Diamond 2010). Indeed, oil is the nation's engine of prosperity.

In spite of stupendous wealth generated from oil, the country remains poverty stricken. Recent World Bank Survey reveals that Nigeria was among the World's extremely poor country (The Nation 2014). It is thus a nation of paradox of wealth that breeds penury. The puzzling question to ask is, why this ugly story of a wealthy nation with poor people? This paper attempts an answer within the context of resource curse theory.

The paper is divided into four sections. The first section is the introduction, while the second part dwells on the theoretical postulation of resource curse to explain the socio-economic predicament of rentier states. It attempts to see the inter-connection between the three concepts of oil economy, corruption and poverty. The third section majorly is on Nigeria's political economy which is at best rentier, that is, oil dominated, with the neglect of other sectors of economy. Section four of the paper is on the empirical evidence of corruption in the oil sector and the attendant poverty perpetrated by the emerging petit-bourgeoisie with no entrepreneurial ability. In the fifth and last section, the paper contends that not only must the oil sector be sanitized, the policy makers must as a matter of patriotism be genuinely interested in the diversification of the country's resources, given the unstable price of oil economy in the international market.

1.1. Resource Curse of Oil: A Conceptual Discourse

There is a growing literature on the paradox of plenty or resource curse theory. The major contention of this theoretical postulation is that countries and regions with abundance of natural resources tend to have less economic growth and worse development outcomes. Such nations are described as rentier or rent seeking states. Rentier states derive most of their revenues from external rents. Government in the Middle East are often cited as leading rentier states because major source of revenue is generated from the sale of oil. This has however extended to other parts of Africa like Nigeria whose main source of national wealth is oil. Mahdavy (1970) is often given the credit of using the term in current literature when he defines rentier state "as that which receives substantial rents from foreign individuals, concerns or government". Beblawi (1987) has further refined the concept to capture its relevance in development discourse. To him "a rentier state is one where the rent is paid by foreign actors, where they accrue directly to the state and where only a few are engaged in the generation of this rent (wealth), the majority being only involved in the distribution or utilization of it".Ross (2003) found that oil wealth and non-fuel materials are associated with bad outcomes for the poor in terms of poverty and development.

1.2. Economic and Political Explanations of Resource Curse

Economic explanation hinges on the fact that an increase in revenue from natural resources appreciates the exchange rate and makes other sectors less competitive and that the volatility of commodity prices are disruptive. The implication is that there is a decline in investment sectors like mining and agriculture. Diamond (2014) argues that when a country derives most of its revenue from oil rents, the structure of productions becomes distorted, Agriculture withers, manufacturing is retarded, because investments pour mainly into easy money of the oil sector. Fason (2001) reasons that resource boom can cause a nation to regard its natural resource wealth not human capital as the key to its future and to neglect educational investment as a result. Tovick (2002) sees resource curse arising because a natural resource boom diverts entrepreneurial talent away from wealth creation which could modernize an economy and towards seeking rent from the public sector. Diamond (2010) observes that in Nigeria, oil boom has drawn large members of Nigerians off land into the cities but without generating the jobs in the industrial and service sectors that would appear in a more balanced economy.

The political explanation of resource curse theory stresses that resource abundance is likely to be a curse when it is concentrated rather than dispersed and when the host country's political institutions are weak. A survey by Karl (1997) in six rich resource countries reveals that resource wealth and resource wind-flow can alter the political climate in the host country if it starts from a weak institutional base. She finds out that having wealth concentrated with mineral rents accruing to the state alters the framework for decision making and the locus of authority in government and influences the type of institutions and policies adopted. In Venezuela, the dominance of oil in the economy and its control by the state after nationalization promoted rent seeking culture and a patron-client system of governance. Michael Ross (2006) found out a similar effect in Philippines, where corruption increased and political power became concentrated as elites channeled these newly created rents to political supporters. Philippians in Indonesia and in Malay states of Sarawak and Saba where timber became a dominant force and political elites altered institutions to acquire greater control of resource rents. Deacon (2006) observes that during the oil price run up between 1970s and 2000s, income in Nigeria became highly concentrated. By 2000, the share of income held by the top 2% of the population equaled that of the 55% whereas it equaled that of the bottom in 1970. Over the same period, the fraction of Nigerians who subsist on 1 dollar per day or less rose from 26% to 70%. Diamond (2014) has also observed that a rentier state dominated by oil economy promotes corruption. Since oil is a free-given natural resource that brings so much money flowing into the state directly with little efforts and with little or no control mechanisms or scrutiny (that is institutions of rule of law), there is the danger of the temptation to corner it. As he further contends, "since no one had to sweat for it and too easy for state official to rationalize that no one really misses it, the logical thing is to embezzle it or misappropriate it or leverage it for bribery (Diamond 2014). The extensive corruption in these oil producing countries have led to other devastating impacts. In the entrenchment of massive corruption, come with it, inequality as a small politically connected elites corner the large proportion of wealth that should be of benefits to all.

Another politico-economic explanation for the curse of oil is the fact that it breeds the emergence of petit bourgeois with no entrepreneurial skill. Since oil is the major source of national income, there can't be the emergence of an independent capitalist but a petit-bourgeois class who lack entrepreneurial ability with no independent means and mental abilities Mahdavy (1970) has observed that the input requirement of oil industry from the local economy is so insignificant that for all practical purposes, oil revenue can be easily considered as a free gift. The implication is that such productive activity requires less mental and entrepreneur effort, most especially from the local economy, since the oil industry is mostly dominated by foreigners. A rentier economy of this nature cannot produce a real capitalist but a petit-bourgeoisie lacking mental and entrepreneurial skill In such a circumstance, the strategy is the intermingling between this petit bourgeoisie both business and ruling elite to feed off state largess and concentrate in services connected to or enabled by the industry (Diamond 2010:7)

2. Theoretical Framework

The study adopts the political economy approach as a basic tool of analysis to be able to understand the interactions that occur between Nigerian oil economy and the kind of political behavior exhibited by the elite class in Nigeria's political landscape. Political economy is now a popular analytical tool employed by both international agencies and scholars in understanding the political factors that shape development challenges and the underlying reasons for poverty. OECD (2008) explains that political economy is concerned with the interaction of political and economic process in a society as the distribution of power and wealth between different groups and individuals and the process that create, sustain and transform these relationships overtime. Moreover, political economic analysis is a useful framework to understand or unravel the material conditions of a society. It serves as a useful tool in unearthing why nations are poor, or why nations may be rich, yet, with poverty stricken population.

This paper will apply a pragmatic approach in the use of political economy. The basic assumption here is that there are intricate relationships between Nigeria's economic resources and the structure of political power responsible for the distribution of natural resources. The nature of a country's economy dictates the behavior of political elite in which its effect or impact becomes noticeable in the material condition of the people.

2.1. The Political Economy of Oil and the Nigerian State

It is important to stress that character of the political system of a country largely determines its economic growth and development. Nigerian state has been variously described as predatory, prebendal or extractive. This is because the existing public offices contested for are converted to personal or group benefit at the expense of national development (Joseph 1987). Moreover, it falls to the category of the rentier state, where major source of income is oil (Ibeanu 2006). For a clear understanding of how oil exploitation has become relevant in Nigerian politics, we need to trace its emergence as a major resource in Nigerian economy.

At independence, Nigeria's economic nerve and public revenue came from the export of agriculture produce such as cocoa, cotton, rubber and groundnuts. As at 1960, agricultural produce accounted for 64.1 percent of the country's economy, while oil as at 1966 accounted for less than 15percent of the national output. By 1970, oil revenue has taken the lead of generating 58.01 percent of the country's total export. Following the growth rate of 13 percent between 1986 and 1992, it began to account for over 90percent of foreign exchange, 70 percent of budgetary revenue and 25 percent of Gross Domestic Product (GDP).While oil revenue kept increasing, annual production of Nigeria's cash crop was falling by 43, 29, 65 and 64 percent respectively between 1970 and 1982. The increase in oil revenue led to the total neglect of other sectors to the extent that by early 90's Nigeria economy depended heavily on oil.

Aiyede (2006) notes that the expansion of oil sector became so rapid, massive and dramatic that it transformed the politics, economy and character of the Nigerian state. Indeed, it transformed the country to a mono-mineral economy, the state into a rentier state and the population into consumer rather than producers. Furthermore, the dominance of oil resource and the stultification of the productive sector of the economy had made politics the most lucrative business, hence, a zero sum game. The struggle for power with the promise of control of oil resource has thus aggravated prebendal politics and personalized ruled both by the military and civilian collaborators.

2.2. Oil Economy, Corruption and Poverty in Nigeria

Corruption in Nigeria has affected so many facets of public and private sector. The magnitude of its harmful effect is colossal, affecting the entire area of public and private expenditures, siphoning huge revenues that would otherwise have been used for the overall development of the nation (Ali 2007).

For over 50 years since independence, Nigeria's quest for development has been hampered by monumental corruption, despite the abundance of natural resources. While it is true that corruption is a global phenomenon, it is more endemic and pervading in Nigeria's political landscape. Anifowose (2002) has rightly observed that in Nigeria, "corruption is a pervasive phenomenon; corrupt practices have become synonymous with governance and consequently have become the bane of Nigerian society". In the recent Global Corruption Barometer, 78 percent of Nigerian some of the larger proportion in the world agreed, corruption is a significant problem in Nigeria. 72 percent felt it had increased substantially in the last two years, 75 percent said government was paying lip service to it. These percentages are evidenced by expert rating such as the World Bank which ranked the quality of governance in Nigeria in the bottom quarter of all the World's countries (cited in Joseph 2014).

Given the nature of Nigerian state as already adverted as prebendal, and rent seeking, corruption in the oil sector has contributed to Nigeria's poverty level more than any other sector. This is not unconnected to the way it was managed by the elite class who emerged after the discovery of oil in the early 1960s and the late 1970s.Ezekwuezili (2013), former Vice President of World Bank and former Nigerian minister lamented, that "endowment of oil resulted in an emergence of indulge elite class who have made disastrous choices that have trapped the destiny of Nigeria's development". The oil wealth has not created the kind of elite class across the length and breadth of our nation that can champion meaningful socio-economic development, but an extractive elite. These political and business elite have been comfortably hung on rent revenue without seeing the desperate need to redirect the focus of the nation to sources of economic growth that are more lasting than the depleting riches of natural resources.

Diamond (2014) reasons that corruption booms in Nigeria's oil sector because the money is there for the taking of unimaginable amount of it and it is not really anyone's money. Since it is perceived as no one's money, few ones bother how it is spent, it thus becomes easy to figure out a way to hide it, embezzle it, misappropriate it or leverage it for bribery. That was how stupendous wealth from oil that could have transformed the country was frittered away. It has been observed that some $400 billion of Nigeria's oil revenue has been stolen or misspent since its independence (Oby Ezekwezili 2014). Former Nigeria's Central Bank Governor(Sanusi Lamido Sanusi), could not keep quiet on the monumental corruption in the oil sector when he opened up that during 18th month period between January, 2012 and 2013, Nigeria failed to remit three quarters of the roughly $65 billion it presumably earned from oil.(The Nation 2013).

Perhaps the biggest brigandage in the oil sector in recent time was the oil subsidy scam of 2011. This involved vast sum of monies paid out of national coffers to a cabal of oil marketers responsible for the distribution of petroleum products in the country. In Nigeria context, oil subsidy implies an annual budgetary allocation to defray the cost of refined oil imported into the country to augment the short fall between what Nigeria's oil refineries produced and the volume of petroleum products that nation consumes annually. According to the report of the Adhoc Committee of the House of Representatives that investigated the fraud in 2011, #245 billion was allocated but within the first eight months of the year, over #1.3 trillion had been paid out to the marketers. The 205-page report of the Committee contains sordid details of the complicity of the personalities involved in the scandal. The committee established that certain highly placed government officials compromised the entire petroleum support scheme to the extent that "round tripping, back loading and other fraudulent practices become order of the day"(News-watch 2012).

The Committee stated clearly that

- Contrary to the earlier official figure of subsidy payment of #1.3trillion, the Accountant General of the Federation put forward a figure of#1.6 trillion, The Central Bank of Nigeria CBN, #1.7 trillion while the committee established subsidy payment of #2.587.087 trillion as at 31st December, 2011, amounting to more than 900%over the appropriated sum of #245 billion. (News- watch 2012)

It is to be noted that for the year 2011, the budget approved for the whole country was #4.97 trillion, which means that what was paid to this cabal of oil marketer was more than half of the national budget for the year. The Committee in their conclusion found out that the subsidy regime, as operated in the period under review (2009 and 2011) was fraught with endemic corruption. (News-watch 2012). What is more intriguing and to confirm the prebendal and extractive nature of the Nigerian state is the indictment of the ruling class and its business collaborators in the oil scam. For instance, former national chairman of the immediate past ruling People's Democratic Party, Ahmadu Alli, who also doubled as the Chairman of Board of Petrol Products Price Regulatory Agency(PPRA), Diezani Alison-Madueke, Minister for Petroleum and Chairman of the Board of the NNPC were implicated. Others involved were Michael Otedola who was the major financier of the 2011 election of the immediate past President, and former Aviation Minister, Stella Odua, now a Senator on the platform of the PDP. It is saddening that none of these culprits have been brought to book.

This large scale corruption has dire consequences for development and human well being. No doubt, it has led to the impoverishment of the majority, while the few who control the wealth of the nation live in affluence. The recent poverty survey by the International Monetary Fund (IMF) rated Nigeria among the World's extremely poor. The World Bank President Dr. Jim Kim revealed that 61 percent of Nigerians were living on less than a dollar a day in 2010, up from 52 percent in 2004, by 2015, poverty level has risen to 71 percent. In the desert North, where Amnesty International estimates more than 600 people have been killed in 2014, as the government struggles to quell a violent Islamic insurgency, poverty even bites harder (The Punch 2014)

National Bureau of Statistics, the nation's monitoring agency of the country's economy reveals that poverty incidence grew to 69 percent in 2010 and projected to be 71 percent in 2011, with unemployment at 24 percent. This is the worst record in Nigeria's history, and the paradox is that this happened during the unprecedented oil boom (Soludo 2015)

To further appreciate the depth of poverty as a result of mis-governance of the economy, especially oil, the health sector deserves close attention. We may look at under-age five mortality rates in Nigeria. Among the 80 countries covered by Economist Intelligence Unit, a subsidiary of the "Economist" of London, Nigeria camelast as the worst place for a baby to enter the World in 2013. Currently, about half of the World's under-five death occur in five countries with, Nigeria taking the lead with no fewer than 2,300children die every day, with India, Congo, Pakistan and China following. This, UNICEF says, makes the country, the second largest contributor to the under-five and maternal mortality rates in the world. (Punch 2013). The mortality rate is due to the fact that Nigerian child faces multiple tragedies such as preventable or treatable diseases such as pneumonia, diarrhea, measles and HIV/AIDS, plus malaria which account for more than 70 percent of the estimated one million under-five deaths, malnutrition that accounts for more than 50 percent of child's mortality. (Punch 2013). This is as a result of mis-governance and is happening in a country with a crude oil production of 2.5 million barrels per day between 2011 and 2013.Another area where Nigeria has received global shame is the eradication of poliomyelitis. It remains one of the three countries in the world as at 2014 partnering in the polio club with Afghanistan and Pakistan. This is as a result of governments lack of political will to give health sector a deserved attention over the years. Even though, #26billion has been allocated to health in 2014, over 82 percent was for recurrent expenditure (Nation 2014)

2.3. Conclusion and Recommendation

The paper sets out to reveal how oil economy which made Nigeria a rentier sate has produced a class of petit-bourgeoisie that fed fat on the oil wealth which became the major source of income for the country in the last fifty years. The persistent large scale corruption in the oil sector led to the impoverishment of the citizenry in the socioeconomic sectors like health, education and employment. It therefore becomes expedient that the anti-graft agencies of the state be further strengthened by the policy makers, to bring to book, the political and business collaborators who have continued to steal the country dry. Moreover, global, regional and local efforts to promote good governance and anti-corruption attitudes, such as the African Peer Review Mechanism and M.O Ibrahim Foundation should be supported and sustained. The total dependence on oil does not hold a prosperous future for the country, given the fact that it is subject to the dictates of unstable world market price. Therefore, Nigerian economy must be domesticated with priority attention given to other sectors such as agriculture and allied industries. Additionally, Government should pay priority attention to generating revenue from tax as it is done in most advanced countries, such as America and Britain. Nigeria's tax system should be reviewed to give room for more revenue generation through widening tax bases, imposing corrective taxes and closing loopholes.

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