THE NIGERIAN OIL RESOURCEAND SOVEREIGN WEALTH FUND: AN INTERROGATION

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Abstract

This article interrogates the Nigerian oil resource and Sovereign Wealth Fund and also investigates what Nigeria must do if it must escape the resource curse. Nigeria has actively engaged in oil exploration for about six decades and is the largest producer of oil resources on the African continent. During the oil boom of the 1970s, oil was the primary source of government revenue, amounting to about 80% of total income. The paper adopts content analysis of mainly secondary sources to examine the research problem at stake using the resource curse theory. Findings reveal poor political institutions, corruption and lack of accountability, weak executive control of oil resource governance with apparent inadequate checks and balances, and the resultant conflicts and clashes of interests, manipulations, and inflation of oil contracts with favouritism in allocating oil blocs to cronies.Therefore, this articleshades in a newlight by interrogating the Nigerian Sovereign Wealth Fund

to ensure optimal benefits of oil wealth to all citizenry; it submits that measures must be adopted in building political institutions, reforming the Niger Delta Development Commission; diversification, building a welfare state, equitable distribution of oil wealth and the imposition of direct tax.

Keywords: Natural resource, curse, institutions and corruption.

Introduction

After decades of investigations, economists, historians, sociologists, political scientists, and policymakers agreed upon the "resource curse" – a theory that resource availability can be disastrous to economic development (Agbah, 2016). Specifically, the available literature on natural resources has discovered a strong relationship between reliance on natural resources and other negative results like incessant conflicts and wars, poverty and inequality, lack of accountability, dictatorship, corruption, and failure of diversification (Aggarwal, 2008; Al-Monee, 2006).

The resource curse is not inevitable considering oil-rich Indonesia's and diamond-endowed Botswana's success (Ammani, 2011).Oil availability in Nigeria has been a subject of debate in resource curse literature, especially in the relationship between growth and economic development in the country compared to what is obtainable in some oiland non-oil endowed countries (Arezki&Ploeg, 2007; Amuzegar, 1999). Nigeria is blessed with a greater volume of oil than any country in sub-Saharan Africa.Indeed, the government ranks among the top ten oil-producing countries globally. Despite this vast oil abundance, growth has always been marginal relative to other oil-rich countries like Norway and Chile (Arezki&Ploeg, 2007b;Abdulkadir, 2012; Al-Monee, 2006).Ever since Nigeria joined the league of oil-producing nations of the world and registered her membership with OPEC, the government has been unable to find solutions to questions relating to managing the oil revenues, ensuring accountability, and diversification for

Wukari International Studies Journal, Vol.6, No.2, 2022

equitable and sustainable economic growth. Only recently, Nigeria established an oil wealth sovereign fund, as the case is with other natural resources rich countries of the world that have turned their natural resources into a blessing (Alkhater, 2009; Amu, 1986). This essay sheds more light on the natural resource curse concerning the Nigerian oil resources and suggests some measures on how to escape this resource dilemma(Amuzegar, 2001; Amu, 1986).

What could be responsible for this relationship of nature, given wealth and someadverse outcomes? Several models agree that the resource curse can operate through various mechanisms. Scholars have used the economic model to explain this through the Dutch disease effect. Others have seen the impact on institutions as more devastating (IMF, 2000; Amuzegar, 2001). Karl (2005) argues that earlier models of the resource curse impact on growth and development focused on the macroeconomic consequences. The most popular and commonly known of such effect is known as theDutch disease, indicating how natural resources like revenues from oil resources with their potential to crowd the export and production of other commodities as a result of the effects they have on the actual exchange rates(Ahmad &Singh, 2003).The Dutch disease principle of the economic impact is self-explanatory: a rise in the export of a resource like oil can inducea country's exchange rate, resulting in a situation where other exports become relatively expensive (Karl, 2005). Furthermore,Ahmad and Singh (2003) believe that this negative consequence on other existing commodities and exports is compounded through the exchange

rate volatility that comesfromfrequent swings in the price of the resources (Alkhater, 2009).

An additionalresponsible agent of the resource curse is the institutional effect. It is an effect that explains the lack of sustainable growth and development in a country due to the absence of competent institutionsthat can channel the resource wealth to harness economic growth, sustainable development, and diversification (Akinlo, 2012).Moreover, resource abundance can undermine the performance of a regime where the tax and revenue system ispoor.

The theory of social contract argues that taxation is the first oration of accountability between a state and its citizens(Akinlo, 2012). This notion finds its origin in developing and building a democratic political state in countries like France and the United Kingdom, where regimes that needed money to sustain wars resolved to tax their citizens to raise the required revenue (Ammani, 2011). In exchange for their taxes, taxpayers demanded their voice in government actions, greater rights, and health and social services with the provisions of primary and social amenities (Aldridge, 1983; Amuzegar, 1999b).

Wealth “Unearned,” like oil income demands little from citizens or no government contribution, impedes the social contract. It makes it difficult for resource-richnations to try to build a state of capability (Al-Kasim, 2006). The argument is that when natural resource rents are for the state treasury,it reduces the state's effort at targeting its needed revenues through tax. With no need to generate income from taxation, the government is cleared of the demand for accountability. It can be

a build-up to the emergence of "rentier states,"which relies on small economic endeavours for revenues for growth with no responsibility to its citizens. The language implies no representation in the absence of tax (Arezki, 2007; Al-Kasim, 2006b;Alkhater (2009). If Nigeria must turn its oil wealth into a blessing, several reforms must be in place as other countries have done, like the US, Norway and Russia. The factors include the following, among others:

The National Oil and Sovereign Wealth Fund

Despite her massive oil income, ensuring that a part of it is kept for future use has been an illusion in Nigeria (NNPC, 2014). The idea of a national oil or sovereign wealth fund as practised in Norway and Alaska or the sovereign wealth fund as enjoyed in China are two models that Nigeria can draw lessons from (Arezki, 2007).

Norwegianmodel of the Sovereign Wealth Fund, as of September 2007, held over $200 billion as exchange reserves that the state executive initiated through the Norway Investment Corporation (Asfaha, 2007). The Sovereign Wealth Fund is instrumental in expanding Chinese overseas business and protecting the country from global competitiveness. In addition, the 2007 wealth fund is pivotal to the success of China's financial institution investments in dealing with the 2008 global economic turmoil(Asfaha, 2007).

The national oil funds that ensure proper use of oil wealth were first introduced and practised by Norway and Alaska. This oil fund is critical in ensuring that the oil wealth benefits were

successful. Key to the success of this policy was the 'political will' through the institution of governance.Unfortunately, this idea of oil funds and other policies have not worked out well in states with poor implementation and decision-making institutions (Abdulkadir, 2012). Omotola (2006) believes that the justification foroil fundsis to ensure that oil rents stay away from the national economies- designedto ensure that the Dutch disease is avoided. Oil funds provide hitch-free revenue volatility, ensure that oil wealth is kept for the future generation, and ensure mitigation of governance challenges that spring up due to windfall. The use of this oil fund is the provision of a backupplan when a country runs out of payments from the traditional sources of revenue (Adati, 2012).

Using lessons from other resource-rich countries, regimes in sub-Saharan Africa have attempted to allocate funds to oil reserves but with little success. Nigeria, for example, tried an oil investment fund called 'Excess Crude Account ', which later collapsed as a result of a lack of transparency (Adati,2012).But, holistically, Nigerian leaders have always enjoyed the extra-budgetary oil fund as pots where they always loot. The concept of an oil fund is only achievable if the oil wealth is kept aside from the existing oil reserves – a situation that can create an avenue for looting if not well managed(Abdulkadir, 2012). To work, an oil fund must enjoy a consistent deposit of money in meeting future use for generations to come with total restraint from officeholders. Unfortunately, a limping political system often finds it difficult to maintain such funds intact without dipping hands. At times,

even when funds are kept, subsequent regimes always tend to loot from the existing treasury. The Gabon's Fund for Future Generations (FFG) case typified an excellent example of where past leaders have stolenfrom the oil fund. But as earlier said, the secret to thiscampaign lies inthe availability of a strong state (Barro, 1991).

Boosting Transparency and Accountability

Transparency and accountability are popular tools that are difficult to find in a resource abundance state. The idea of boosting transparency is another milestone that has been reliable in providing an escape route from the resource curse dilemma. It involves giving confidence to the citizens at large through access to information (Barro, 1991). This measure remains a voluntary initiative for countries that see transparency as a watchword. This method aims to feed the public with information that can assist in demanding accountability.Recently,with some early success, the Tax Justice Network and others have sought to expand the transparency debate to the international financial system" (Barro&Lee, 1994). Nigeria can best profit from the transparency and accountability policy if it joins Botswana and other countries in aligning with the Extractive Industries Transparency Initiative (EITI). This idea has been central in accountability and transparency, as efforts ensure citizens are informedwith information about accountability (Barro&Lee, 1994).

Sadly, transparency is associated with setbacks. When leaders like those in Nigeria, when called to make the oil

revenues known to the public, the process always appears more of asking a corrupt regime to regulate (Transparency International, 2014). As a result, anyone seeking credible information ismore likely to get lipservice that would not correlate with the reality on the ground, as they must always look for a base to exhibit the looting instinct to the detriment of the oil state (Barro&Sala-i-Martin, 2004).

Looking at the place of transparency in escaping the resource curse,Barro and Sala-i-Martin (2004) see the process of boosting transparency as a regulatory tool. They rest their argument on the overall level of corruption and truncation of access to information. They maintain that since most corrupt regimes in resource-rich countries have always resisted the traditional growth process, transparency can best offer a means of checking their reckless spending of the resource revenue. The conviction here is that when payment of royalties and concession fees are known, it can impede and minimise the instinct to steal (Transparency International, 2014).

A closely related problem in boosting accountability is that civil societies and pressure groups have not used data and records provided regarding shady oil deals and loots to call the offenders to account despite a level of transparency (Berthelemy&Varoudakis, 1996). As earlier mentioned, the solution to ensuring this proposal's success lies in establishing a solid political institution of governance that has the political will to implement these proposals.

Reforming the Niger Delta Development Commission (NDDC)

Wukari International Studies Journal, Vol.6, No.2, 2022

Another way of escaping the resource curse in Nigeria is the need for urgent reform at the NDDC. The commission came into existence in 2000 after several commissions failed. The NDDC aims to reduce the negative consequences of oil exploration in the Niger Delta and the provision of social and economic development in the region (World Bank, 2018).

Two critical reforms will be necessary at the NDDC: First is the commission's structure, which allows the president to select the commission's chairman. The implication of this procedure is that it does not reflect trust and confidence from Niger Deltas.The other reform lies in transparency and accountability. For example, the NDDC has beenindictedfor improper utilisation of allocation meant for the region (World Bank, 2018).

Diversification

On diversification, Welsch (2008) conceives diversification as a standard proposal for escaping the resource curse and iseulogised by scholars and global governing institutions. Fighting the resource curse by adopting this measure is arguably enjoying weight from the range of competing debates more than any other proposal. Despite poor implementation, the idea has received calls from leaders and policymakers in resource-rich economics. One feature ofthe resource curse is this: this so-called paradox of plenty permanently cripples some sectors at the expense of revenue reliance on the primary commodity (Welsch, 2008). A concrete example is the experience of Nigeria with the loss of her

flourishing agriculture in the 1970s. Dependence on oil has led the country to import rice, a commodity it was producing on a massive scalebefore the oil boom of the 1970s. Nigeria now imports agricultural and other foods that the country was growing before her oil boom (Stijns, 2005).

As a factor in escaping the oil curse, diversification entails focusing on developing and building other sectors of the economy to complement revenues from crude. This diversification has proved to be one of the oldest and most reliable means of avoiding the resource curse. The cluster model of diversification that proved successful in the United States can also be experimentedwith (Gillies, 2009). Before doing this,social and political reforms be encouraged. Existing businesses and institutions must undergo a level of reform as well. It must involve upgrades in areas like transport, energy, and provision of security to ensure that confidence is achieved. Criticalregions of reforms must include physical infrastructures and the market. Additionally, institutional reforms must include workforce developments and professional training to ensure that new sectors have the necessary staff and professionals to succeed. Diversification can help a regimereduce the pressure and reliance on natural resources (Stijns, 2005).

To diversify the economy,Nigeria must learn from Botswana. It is achievable by improving economic performance to increase the economy's flexibility in responding to internal and external falloutsaffectingcrude supply (Barro, 1991).

It is on record that the inability of Nigeria to diversifyits economy has been attributed to poor and slow economic growth

due to weak institutions as the oil rent persists. However, Nigeria can now fix other sectors like the steel industry and revive agriculture and other related industries outside the oil industry. Unfortunately, the Ajaokuta Steel Complex is one area that has suffered decades of neglect despite the considerable potential that avails itself in the company (Ammani, 2011; Gentile, 2007).

Equitable Distribution of the Oil Wealth and the Imposition of Direct Tax

Equitable distribution of the resource wealth and direct imposition of a tax for government's project and development is another method that has worked in some resource-rich nations where an advanced developed political system was in place (Akpan, 2009). The direct distribution method of oil wealth appears to have a level of complication when considering the level of transparency needed in the diffusion process. Nigeria's rich history of corruption and lack of accountability can constitute a setback in this process (Gentile, 2007). The solution and success of this method must include the role of political institutions that ensure checks and balances with proper accountability. The distribution process is to be equitable and prosperous without rent-seeking. In that case, the government can also earn its revenue directly from the citizens through tax to perform its functions and execute developmental projects. The Alaskan model offers another viable alternative to learn from (Collier &Hoeffler, 2004).

The direct distribution mechanism works best where oil wealth revenue will remain with an independent body that

ensures a lump-sum sharing formula to Nigerians and the availability of an assuring sharing method like electronic transfer or any better alternative means of making the payments. Therefore, the government can now get back tax from each citizen's incomefrom the oil revenue. Alternatively, the government can choose to deduct its tax before the cash transfer to individuals. It can bea prior tax or a virtual tax system. The direct distribution and tax system must ensure that government utilises the tax judiciously, knowing it serves as a source of earning since the oil revenue goes to all the citizens (Akinosho, 1998;Collier &Hoeffler, 2004).

The Welfare state

One common trend in sub-Saharan Africa,despite resource abundance,is the absence of a welfare state. Botswana and Mauritius could be seen as exceptions as they give their citizens a level of welfare service that Nigeria and many others are guilty of not providing (Ayoola, 2005; Ajumogobia, 2008). The welfare state in this context is not a political arrangement or institution; rather a governmental spending arrangement that ensures the well-being of citizens. The survival and success of the welfare state prevail effectively under a developmental state. Such spending under a welfare state is obtainedthrough essential services,including mandatory-income insurance and direct government services like human development schools, health, water, and other necessities of life (Adomako,2008;Ayoola, 2005; Ajumogobia, 2008).

Historically, social scientists and historians, in particular,

traced the origin of modern welfare states in the late '70s and early '80s (Adomako,2008b). Institutions andthe foundation of the states were built decades ago. Since its adoption in the developed world, the International Bank for Reconstruction and Development (IBRD) has welcomed this state-led spending plan. It is considered another reliable means of improving livelihood in resource curse countries and reasonable criteria for measuring economic development (World Bank, 2018).

Nonetheless, despite the success of the welfare states in other parts of the world, countries in sub-Saharan Africa have not done enough to pursue a welfare scheme for their citizens. In Nigeria, for example, much has not been done by providing gifted education, workforce training, rent control, and regulating agricultural price support, checking inflation and price stability in the market to its about 220 million citizens (World Bank, 2018). This sizeable population that comprises able young men has not helped supply the needed human resources for industries and key sectors due to lack of training. In addition, essential health is a myth that millions are yet to experience. The presence of a welfare state can serve as a means of escaping these negative resource woes (Ayoola, 2005; Ajumogobia, 2008).

In adopting a developmental model, the model of South Korea is arguably the most successive story of the last century. This process started from agriculture to manufacturing leading to the exportation of electronics globally. The country offered a good lesson for Nigeria due to their similar level of development some four decades ago. But in the present, South Korea has

become a reference point in economic performance and regime type considering economic growth and human records (Ajumogobia, 2008).

Crucially, what Nigeria can learn from the South Korean's experience is the efficiency of the state and its ability in macroeconomic intervention and motivation in the aspect of resources. The process of infusing the state's led developmental ideology was another essential aspect of the Korean model worth emulating. Other vital aspects are the consistencies in policy and how the regime handled social pressures. Development statistics suggest that the state economic policy was very crucial for the transformation of Korea. Coherent policies were formulated and effectively implemented as the state planners were the drivers of this success story, not the free market (Ajumogobia, 2008b).

The United States of America also offers a lesson to Nigeria on welfare policies. The US has developed more universities than any country globally, with available scholarships for its citizens to break financial barriers to enrollment. However, with over 140 universities in Nigeria, they are not enough to cater to prospective enrollment seekers in a country with about 220 million people (Ayoola, 2005; Ajumogobia, 2008).

Wukari International Studies Journal, Vol.6, No.2, 2022

Conclusion

This paper reviews the decades of oil exploitation in Nigeria. Though, it cannot be gainsaid that oil has been, and remain, the mainstay of the Nigerian economy since the 1960s. However, owing to corruption, lack of solid political institutions, absence of a welfare state, failure to diversify the economy and lack of transparency and accountability, the paper has aligned itself with the central thesis in the malign theory that the discovery and exploitation of oil resources in Nigeria has been more of a curse than a blessing. To bolster this argument, the article takes a panoramic exploration of various steps that Nigeria must pursue if it must enjoy benefits from its oil resource. Brought this as a whole, this article contends that the management and regulation of Nigeria's oil resources lack practical regulatory, political institutions at the national level. When taken and properly applied, all these steps will go a long way to ensure that the country turns its oil resources from a curse to a blessing.

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Wukari International Studies Journal, Vol.6, No.2, 2022