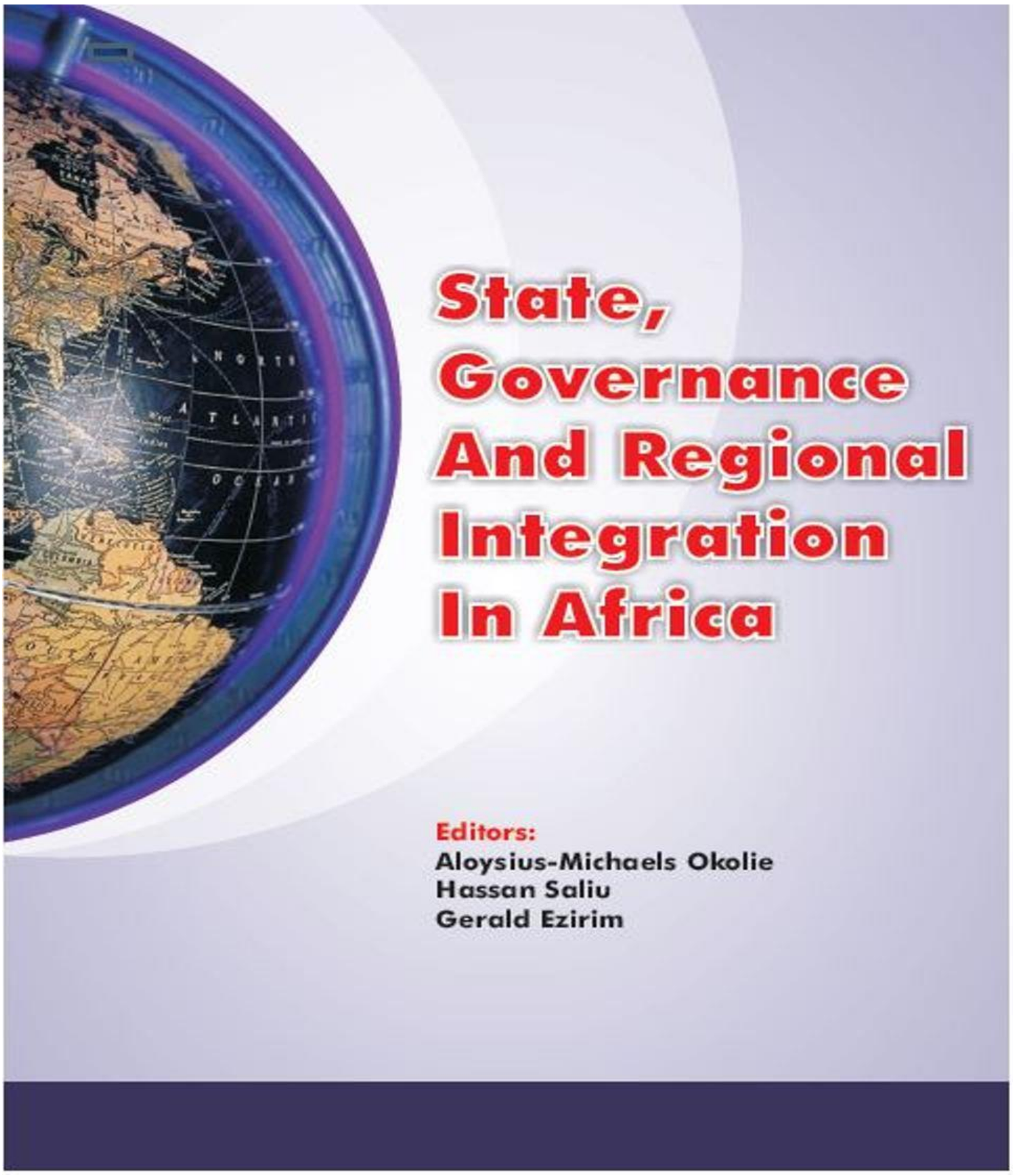

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Nigeria's Dependence on Oil: Implications on Budgets, Resource Control and Militancy in the Niger-Delta

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Abstract
The article undertakes an overview of Nigeria's monolithic economy espousing the overdependence on Oil as its major revenue earner. It examines the general socio-economic implications of this situation on the Nigerian society. The work critically interrogates the nexus between oil dependence and the thorny issues of resource control and militancy in the oil rich Niger-Delta region in Nigeria. The work adopts the descriptive approach in its discussion and analysis, and the Marxian instrumentalist decision making model as its theoretical framework of analysis. The paper argues that the preponderance of Oil as Nigeria's major revenue earner and the challenges of environmental degradation occasioned by the exploration of this very major national revenue spinner is the source of the agitations that have majorly resulted in militancy by the active youthful population of that region. This research also finds that there is an apparent lack of transparency and accountability in most single revenue yielding mineral resource economies all over the world. The implications is that policy making, planning and implementation in such economies tend to be unsustainable thus largely unable to achieve the desired objectives. The work recommends among others that the Nigerian economy should be diversified and the non-oil sector particularly the private sector and agriculture be developed and expanded. Greater transparency in governance, which is a sine qua non for the realization of the objectives of government, should be adopted. Also, the adoption of the tenets of true federalism as is been canvassed for adoption in the constitution review programme should be accomplished to give the federating units a sense of belonging so that they can develop their potentials to the fullest. This is the only way to ensure stability and development in Nigeria.

Key Words: Oil-Dependence, Oil-Revenue, Budget, Resource Control, Militancy, Niger-Delta

Introduction:

Nigeria received oil revenues of over $400 billion from 1960 and 2001 yet the country's economic fortunes worsened within the period. Nigeria received 99.6 percent of its export income from oil, making it the world's most-oil dependent country (Garry and Karl, 2003; Sala-i-Martin and Subramanian, 2003). Ross (2003, p.9) points out that "from 1970 to 1999, oil generated almost $231 billion in rents for the Nigerian economy". Since 1974 these rents constituted between 21 and 48 percent of Nigeria's GDP. But it is remarkable that these rents have not substantially impacted positively to raise Nigeria's incomes and reduce poverty. Nigeria's per capita income has been falling by about 4 percent since 1970. Despite the lack of appropriate measurement of the poverty level in Nigeria there is hardly any indication that poverty has reduced in the last four decades. It must be remembered that before the first oil boom of the early 1970s Nigeria was heavily dependent on agriculture, as the major contributor to GDP and source of export earnings. Adam (2001, p.369) reports that in 1960 agricultural sector accounted for about 64 percent of GDP.

This work is divided into the following themes: the theoretical framework; Oil and the Nigerian economy; the role of oil in the Nigerian economy; the implications of Nigeria's oil-dependence on budgets; the implications of oil-dependence on resource control as well as the politics of resource control and militancy in the Niger-Delta region. Well informed conclusions and recommendations have also been made.

Theoretical Framework

In an attempt to explain the seeming contradiction between the preponderance of oil as Nigeria's major revenue source and development, which is generally seen as a curse, this work chooses the Marxian instrumentalist decision making model as its theoretical framework. This model rests its argument on how classes within the capitalist enclave manipulate the state as an instrument to achieve its collective will. First, the model assumes that fostering capitalist accumulation and profit is the basic function of the state, but especially the state in a capitalist society. This negates the popular thesis that the state is a 'neutral power broker' in relation to the interests of capital and labour (Ngwu and Ugwu, 2015).

Raph Miliband and G. William Domhoff (1967) who are famed for their great contributions to this theory tried tp isolate the methods and processes through which the capitalist class uses the state as an instrument to protect and promote their selfish interest. Domhoff has identified four processes that give a clear view of this process. First, the candidate selection process; the special interest process; the ideological legitimization process; and the policy-planning process (McGowan and Walker 1981, p.353).

The main assumption of this theory is that the capitalist class uses the state to serve its interest. Arising from the direct participation of the ruling class in the state apparatus it is easier for this class to manipulate policy making and implementation to serve their interests and ends. This they achieve through a proper identification of the connections between members of the capitalist class and the key actors in the decision-making institutions in government (Ngwu and Ugwu 2015). This model provides an explicit description of the capitalist class, the frontiers of its stranglehold on institutions of governmental and how its class interest is promoted through its direct participation especially through the policy making and implementation. This inevitably shows that all state policies especially those that regulate the management and control of resource wealth are enormously influenced by those in control of the state apparatus.

The work argues that the nature and character of the Nigerian state that came out after independence was deliberately packaged to not only place the interest of the capitalist class above every other thing but to perpetually serve it. The study further contends that the most important interest of the indigenous capitalist class was that of foreign capital, particularly British capital. For instance, it is clear that the incorporation of British Petroleum into the Nigerian oil industry in those early stages was deliberate ploy to perpetuate those interests.

Steps were taken to consolidate the protection of those capitalist interests, the next logical step that the colonial administration which was now departing was to configure the politics of the immediate post-independence era to ensure that it conduced to the protection of those interests.

The paper argues further that the inability of the Nigerian state through its leaders to utilise the abundance of oil as its major revenue earner is a function of the deliberate creation of the leadership as well as the establishment of a political system that would perpetually be at variance with the tenets of good governance and development. A leadership which would not employ the formulation and implementation of good policies that would help change the fortunes of the Nigerian state and its citizens. Policies would only end up serving the selfish interests of the leaders as it were.

Oil and the Nigerian Economy

Nigeria is a major oil exporter and a member of the organization of petroleum exporting countries (OPEC) (Adam 2001). Oil was discovered in commercial quantities in Oloibiri, Bayelsa State in 1956 and production started in 1958. Before the oil boom of 1970s, agriculture, as stated earlier was the mainstay of the Nigerian economy accounting for over 64 percent of GDP, as it was a major exporter of cocoa, peanuts, and palm products. Agriculture also employed two-thirds of the labour force and accounted for 18 percent of GDP in 1995. But the Nigerian economy underwent profound changes during the 1970s and 1980s due simply to the discovery and sale of oil in commercial quantities. In 1965 when Nigeria's oil revenue per capita was about US$33, per capita GDP remained at the 1965 level, implying that oil revenue accumulated over the 35 year period between 1960 and 2000 did not add value to the standard of living of Nigerians (Sala-i-Martin and Subramanian, 2003, as cited in Oyefusi 2007). The economy of Nigeria is now heavily relied on oil for more than 90% of its exports earnings, 30% of its GDP, and 70% of its federal budget resources. However a combination of factors ranging from declining oil prices, neglect of the agricultural sector, and widespread corruption and mismanagement, among others, have hampered the growth of the Nigerian economy, thus leading to its decline over the years (Todaro, 2003).

Implications of Nigeria's Oil-Dependence on Budgets

The instability of the Nigerian economy occasioned by its heavy dependence on oil has largely accounted for imperfect budget policy formulation and implementation. The volatility of oil prices cannot in any way provide a stable environment for planning. The last two decades of the 80s and 90s witnessed a myriad of problems and shocks. Adam (2001, p.371) argue that "the first, second and third oil price shocks by 1973/74, 1979 and 1981, respectively, resulted in large wealth transfer to Nigeria. Present expenditure increased, greatly and also the oil export boom led to a "Dutch disease." The excessive reliance on oil export boom in 1970s, coupled with the non diversification of the economy (i.e., through the poor development of the non-oil sector) rendered the Nigerian economy vulnerable to external shocks that later dislocated it. The windfall from oil led to tremendous rise in wage prices, imports, and government expenditures.

The collapse of oil prices on the other hand has serious problems on budget and the economy. For instance, in 1981/82, following the oil price collapse, rising inflation, currency devaluations, capital flight; high debt crisis and other domestic problems arose, making impracticable any effective budgetary projections in the first place, and when a budget was even made, its implementation to the later became problematic. A case in point is the recent projection made in the 2017 Nigerian budgets whereby the bench mark of crude oil sales is placed at 46 dollars per barrel, while even before the appropriation bill is yet to undergo scrutiny in the hands of the lawmakers, oil prices at the international market which rose to an all time high of about 145-147 dollars per barrel, dropped to an all time low of 28 dollars per barrel. This shows that Nigeria's budget predicated on 46 dollars per barrel of crude oil has already failed. This is the danger arising from the dependence on a single revenue earning product in an economy. A similar thing occurred in 1998 as reported by Oyefusi 2007 that "the Nigerian government's budget of 1998 was based on the assumption of an average oil price of US$17/b. but in the same month the budget was announced the crude oil price fell from about US$16 to US$14.73/b, thus threatening the viability of the entire budget (Newswatch 16th Feb 1998, in Oyefusi 2007).

The shocks and disruptions arising from market forces aside from the social and political issues affecting the effective utilization of such a resource becomes problematic. These have been the challenges faced by the Nigerian economy over the decades when it abandoned agriculture and failed to develop the industrial sector to complement the oil sector in order to have a well diversified economy that would ensure sustainable development of the country.

Implication of Oil Dependence on Agitations for Resource Control in Nigeria.

Issues patterning to resource control in Nigeria have been noticed in a rather disguised form as conflicts over revenue allocation formula from 1946, and particularly since 1970. Very recently, issues of resource control have assumed a more frightening dimension as many states and regions in Nigerian are locked up in the law courts with the federal government over resource control. In fact, these issues have intensified the underlying forces for serious political and economic conflicts. The recent cases for resource control especially as spearheaded by people of the Niger-Delta are a direct function of the over dependence of the Nigerian economy on oil, which, as it were, is solely sourced from the oil wells located in that region.

Some scholars are of the opinion that the issue of resource control was a response of the southern States' governors to the introduction of the Sharia legal code by some states in the northern part of the country (Nigerian Tribune, 2000). But this can only be a boost to the problem as evidence exist that this problem predates the introduction of the Sharia legal code in the north.

The re-emergence of democratic rule with its attendant values of freedom of speech and association gave ordinary people the opportunity to make demands for fair treatment in a real federal arrangement. The fact that the military administrations are more dictatorial and gives no room for the people to express their desires and interests is a pointer to this fact. Therefore, the perception by the oil communities of grave injustice against them as a result of the oil exploration during the military era is apt. The Abacha regime went to the extreme of executing nine Ogoni environmental rights activities including a playwright, Ken Saro Wiwa, against international outcry against the execution. The advent of democratic rule in 1999 has been checkered by tremendous upheavals over the past years because of the issue of resource control. But successive democratic regimes have over the years found it difficult to combat this phenomenon due to several reasons. Lawal (2006, p.17) points out that "the complex nature of the polity as engendered by its diverse ethnic and religious differences, low level of socio-economic and educational development as well as elite manipulation of these and the economic process for selfish ends, etc, constitute much of the problem". But the monocultural nature of the Nigerian economy has been the greatest undoing in attempts to address the complex behemoth of revenue allocation. The reality of the Nigerian situation is that resource contributive capabilities to the national pool are grossly disproportionate. But the component units with consideration to their individual revenue generating capacities combat annual budgets, which are to be financed from the federal allocation accruing to them at any time (Lawal, 2006).

Oil Dependence, Politics of Resource Control and Militancy in the Niger-Delta Region.

The fight for the control of resources in the Nigerian federation is a function of the dissatisfaction of most of the federating units in the type of Nigeria's federal system. But most importantly, the present spate of agitations and militancy in the Niger Delta is occasioned by the perceived injustices felt by the people of the Niger-Delta who host the oil wells and companies. This perceived marginalization in the management of petroleum resources being felt generally by the southern states has been the main issue. It is generally felt in the oil producing communities that given the fact that oil accounts for over 95% of the country's revenue, and given the dislocation of their economic foundation as a result of the activities of the oil companies which deteriorates their environment including farms, wild life, fishes and fresh water, the federal government should adopt a policy that would grant them a major share of oil rents. But the preponderance of argument since the world go have been that if a mineral-producing state controls the resources and appropriates the revenue accruing from it by way of derivation, the result would be first, an unbalanced development, second, derivation could lead to a radical shift in revenue from majority groups, which are very influential and powerful, to minority groups, that are politically powerless (Mbanefo and Egwakhide, 1998, as cited in Saliu, et al 2006).

Studies have reviewed radical reforms in resources sharing arrangements between 1967 and 1985 and have indicated the dominant class had advantage over the others, because oil is the main source of revenue in the country (Obi 1988 as cited in Saliu et al 2006). In this wise, it is apt to conclude that it is the oil revenue that has brought about the current struggles over the control, access and distribution by various factions of the ruling class. This situation thus places the principle of derivation as a basis for revenue sharing in the country as a discriminatory weapon that would give undue advantage to some parts of the country over others. Given this Scenario, the federal government is now bestowed with the ultimate powers and so all attention is now "shifted to the contest to power and the capacity to authoritatively allocate resources at the centre" (Obi, 1988, p.32).

However, it is argued that centralization of power breeds overconcentration which is antithetical to true federalism. Lawal (2006) has argued that the concentration of oil revenue also militates against the improvement of other sectors of the economy. Lawal (2006, p.33) explains further that, "in Nigeria, revenue allocation largely implies the allocation of oil revenue. Therefore, oil is central to the politics of intergovernmental relations in Nigeria".

The fact that the minorities in the Nigeria Delta region possesses the nation's oil wealth has thus led to series of agitations for better compensation. Orwasa (1995, p.110) opines that "derivation principle was smoothly defended and applied in the 1950s and early 1960s, by the dominant power blocs – Western and Northern regions – that benefited from it. During the period, the bulk of the country's revenue came from cash crops such as cocoa in the West and groundnut from the North" but this argument looks untenable to justify the present crisis in the Niger-Delta. We must remember that there is a grave difference between the agitation for derivation principles based on agricultural products which needs the direct efforts of the people concerned, highly contrasts with a resource which occurs naturally in the ground, and has been tapped using the revenue generated from the agricultural products of the West and North. Without huge capital from these crops, oil would remain untapped and as such would be of no meaning to the Niger Delta and Nigeria in general. This was why the Aboyade commission (1977) and Okigbo commission (1981) did not emphasize derivation principles. Despite that, it still remained the dominant principles up to the mid 1970s, (Mbanefo and Eqwakhide 1998).

Oil dependence poses other serious challenges to governments. Political instability and national security becomes precarious when an economy tends to depend on a single resource for its revenue. The collapse of the Shagari administration can largely be associated with the collapse of the world oil market in 1981, because the revenue of the government declined causing untold political, social and economic problems which the Buhari military junta in 1983 used as justification to take over power. The federal revenue which stood in 1980 at an all time high of 15.2billion, fell to 12.1billon in 1981 to 11.7billon in 1982.

The country's external and internal debt problem that protracted for many decades and strangulated the Nigerian economy was caused mainly by the Shagari regime which could not handle the grossly declining oil revenue and instead of rationing expenditures looked for external loans. That was how the country entangled itself in the external debt palaver, which lasted until the recent Obasanjo administration took the bull by the horns by repaying some and negotiating others in a more manageable framework. This shows that the external debt bondage is a consequence of the Nigerian oil revenue dependence. This problem is aggravated by Nigeria's low foreign asset investment and diversification; hence it has no adequate protection against shocks in oil revenue or uncertainty over oil market stability (Ikein, A. 1991).

Conclusively, Ikein States that "Nigeria has a high degree of external dependence but low internal dependence which, coupled with high debt service (especially before the Obasanjo and Paris club resettlements) makes it more vulnerable to economic instability. A study on economic policy with fluctuating oil revenues (Markandya and Pemberton 1988) showed that Nigeria has an external dependence of 97%, an internal dependence of 18% foreign assets holding of 16%. Markandya and Pemberton (1988, p.45) define external dependence to mean "the export of minerals as a percentage of total exports, and internal dependence to mean the export of oil as a percentage of GDP in current market prices."

The restiveness coming on the heels of resource control agitation in the Niger Delta is a sore-throat in the political life of Nigeria. The agitation has metamorphosed into militancy and kidnappings in the region. The militants as well as leaders in the region also blame their fight on the activities of the multinational corporations whose exploration activities impact negatively on the oil producing areas in the Niger-Delta. Ikein (1991, p.25) attributes this lack of attention to the "pragmatic and international orientation of oil enterprises, which are almost exclusively managed and operated by multinational corporations from a capitalist point of view, without regard to the welfare of the producing areas".

Considering the magnitude of problems facing this region, the 1999 constitution provided a new arrangement for allocating oil revenues among federal, states and local governments while placing a portion in special funds. Some factors were identified as the basis for transfers to states. This includes the 13 percent derivation grant to mineral oil producing states in the Niger Delta region. It must be highlighted that in an ethnically heterogeneous nation like Nigeria, the allocation of oil revenue would always be in contention. However, the frequent revision of revenue sharing formula hinders long-term planning and may encourage further rent-seeking, since it informs actors that lobbying for additional changes may be profitable. The oil dependence syndrome has also crowded out the manufacturing and agricultural sectors of the economy. The abundance of oil revenues has given little incentives from Nigerians to venture into the manufacturing and agriculture sectors. Growth in these sectors has followed an erratic pattern with little gains to show for it. Aside from this, it has undermined democracy (Anumve, 2017). The oil wealth attracted military rule, because they have always felt the civilians have not performed well in governance so, over the years it has experienced alternative circles of democracy and military rule. Industrialization tends to strengthen democracy by creating an urban middle class, which in turn offers stable platforms for democratic institutions. In this case industrialization has been stifled by the preponderance of oil wealth. Oil dependence syndrome has also fostered inequality as the unstable democratic institutions hardly support polices that reduce poverty and enhance equality. The next problem is the tendency to spark violent conflicts. The Biafran war sparked off when the eastern region realized that it could corner the oil wealth from the Niger-Delta region located just at its backyard. Besides this, the high incidence of poverty in oil rich nations is a natural cause of conflict. The Niger-Delta region presently ranked with 52% of poverty has been the highest rate in Nigeria (National Bureau of Statistics, 2016). Ebegbulem, Ekpe and Adejumo (2013) aver that “the people of the Niger Delta are among the poorest in terms of living conditions in Nigeria”. To Nwanna (2002), 'seventy percent of the inhabitants still live in rural subsistent existence characterized by a total absence of such basic facilities as electricity, pipe-borne water, hospitals, proper housing and motorable roads.'

Conclusion

Nigeria is potentially the largest economy in Africa but since it abandoned agriculture at the advent of the oil boom in the 70s, coupled with the prolonged military regimes which enmeshed the country in corruption, she was unable to utilize the oil boom and diversify her economy, thus stagnating it for more than three decades,

Todaro (2003, p.73) opines that “if Nigeria is to turn the tide of its economic misfortunes and mismanagement, it will have to raise domestic food production and labour productivity; use oil revenue more rationally to diversify economic achievement”. It must however be concluded that the presence of abundant oil revenues rather amounted to a curse rather than blessing because Nigerian citizens were better off in the 1960s when she depended on agricultural revenue, rather than now with trillions of naira in oil revenue yet her citizens remain one of the poorest in the world. The “Dutch Disease” has indeed caught up with Nigeria.

Recommendations

As a matter of urgency the Nigerian government must take the following measures in order to get out of this palaver. The Nigeria economy must be diversified in order to avoid excessive volatility which hurts the poor, corruption and rent-seeking as well as democratic instability. Thus the need to reform the non-oil sector is germane. Agriculture and manufacturing sectors need urgent revitalization through public investment and market-friendly reforms. Government can introduce stimulus packages to engender investment and growth in these sectors.

Measures must be taken by the government to reduce volatility of oil and gas revenues. Government can set up Petroleum Special Trust Fund to stabilize its annual revenues. Other special reserves could be adopted by the NNPC, which will need to restructure its contracts with its private sector patrons to stabilize the entire government oil revenues. Stabilizing the derivation formula is an important measure in stabilizing the economy. Since 1946 Nigeria has changed its derivation formula for at least 18 times. The frequency of these changes tends to negatively impact on budgeting at all tiers of government. This does not augur well for planning purposes. Government should desist from further changes and maintain the current one, if there is not going to be a wholesale restructuring of the entire political and economic structure of the federation.

Establishing greater transparency in governance is a sine qua non for the realization of the objectives of government. The adoption of transparent measures in oil revenue dealings sends positive signals to all stakeholders including the oil bearing areas. The recently launched Extractive Industries Transparency Initiative by the Obasanjo government should be upheld and sustained to engender the desired transparency in the oil sector. This is the only hope for stability.

Also, the tenets of true federalism as is being canvassed for adoption in the current constitution review exercise as well as the committee for restructuring set up by the All Progressives Congress (APC) government should be accomplished. Once a stable federal system is adopted in the constitution the federating units will have no choice than to abide by it especially under a democratic setting. This is the only way to ensure stability and development (Ihonvbere, in Vanguard of 8th Feb 2009).

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