Available online at www.rajournals.in
International Journal of Management and Economics Invention
ISSN: 2395-7220
DOI: 10.47191/ijmei/v7i11.03
Volume: 07 Issue: 11 November 2021
International Open Access
Impact Factor: 0.532(GIF)
Page no.-2341-2346

Understanding a Resource Curse Hypothesis: The Nigerian Archetype

NNABUGWU Chiazor Uzoamaka[1], PETER Ugbedeojo Nelson[2], IGWE Anthony[3]
[1,2]Ph.D Student, Department of Management University of Nigeria, Enugu Campus, Nigeria
[3]Head, Department of Management Department of Management the University of Nigeria, Enugu Campus, Nigeria

ARTICLE INFO
Publication Online: 18 November 2021

Corresponding Author: **PETER Ugbedeojo Nelson**

ABSTRACT
In continuation to understanding how Nigeria is emblematic of a resource curse model nation, this study presented an intricate look at national, regional and global data-sets which provided credence to the hypothesis that the country is indeed a resource cursed archetype. While report of compelling evidence showed that oil as a resource has been the bane on the growth of the Nigerian economy, with implicit structural disturbances occasioned by poor leadership, the study presented the sordid state of the country in this regard, but also offered policy initiatives that could help the country manage its malaise.

KEYWORDS: Resource-curse, corruption, poverty, mismanagement, Nigeria.

1.0 INTRODUCTION

Oil can be both a blessing and a curse. In Nigeria, it has mostly been the latter. (David Fickling, April 7 2021).

Nigerian economy is naturally endowed with human, agricultural, petroleum, gas and large untapped solid mineral resources. However, rather than record remarkable progress in economic growth, the economy in recent times, is faced with a negative average Gross Domestic Product (GDP) growth rate (Marshal, Nkwadochi & Emmanuel, 2020).

Barely 10 years after crude oil was discovered in Nigeria in 1956, it was already crushing the young Nigeria in civil war. With production never exceeding the one-day hit of 2.3 million barrels recorded in 1979, Nigeria's oil output, now with a population three times larger, is embarrassingly inadequate.

Journalist Thomas Friedman postulated the first law of Petro politics (the strategy of controlling petroleum sales as a way of achieving international political goals): “The price of oil and the pace of freedom always move in opposite directions in oil rich Petrolist states” (Wacziarg. 2012:2).

In terms of Gross Domestic Product (GDP) in recent years, Ghana and Cote d'lvoire whose countries are less blessed with oil wealth, are well above Nigeria. Comparing internationally, China, India and Vietnam whose countries were all poorer in the 90's, are now considerably richer. For Over four decades, both Indonesia and Nigeria economy depended heavily on oil revenue. Today, Indonesia's economy is four times that of Nigeria. Nigeria's GDP has actually fallen, from 2.65 % in 2015 to 1.92% in 2019'(Idemudia, 2012; Okpanachi & Andrews, 2012).

The statement above summarizes what has been termed the totality of the effect of the ‘Resource Curse’ in Nigeria and, indeed, most sub-Saharan African Countries. According to Sachs & Warner (2001), with the instability in oil prices, many oil-, gas- and mineral- exporting countries are faced with challenges of what is called a Resource Curse (Shobande & Enemona, 2021).

Resource Curse refers to absurdity; that countries with an abundance of natural resources (like oil, diamonds. gold, other minerals) have less economic growth than countries that do not have natural resources.

The Resource Curse, also known as the Paradox of Plenty or the Poverty Paradox, is the phenomenon of countries with an abundance of natural resources (such as fossil fuels and certain minerals) having less economic growth, less democracy, or worse development outcomes than countries with fewer natural resources (Umar et al., 2021).

This may occur for different reasons, including:

i. A fall in the competitiveness of other economic sectors.
ii. Under-investment in education.
iii. A mismanagement of revenues gained from the natural resources sector (Mehlum, Moene, & Torvik, 2.006).

However, there is some level of discrepancy as to the real cause of the Resource Curse among researchers (Idemudia, 2012). The term was first used by Richard Auty in 1993, to show how countries with abundant natural resources were not able to use their wealth to boost their own economies and how such countries with little or no natural resources recorded significant economic growth more than the countries that have an abundance of natural resources; although the idea that natural resources might be more of a curse than a blessing began to emerge in the 1980s. Numerous studies, including a notable one by (Sachs & Warner, 2001), have shown a powerful relationship between natural resource abundance and poor economic growth. This abnormality - between natural resource wealth and economic growth - is obvious by looking at figures from oil producing countries. In Organization of the Petroleum Exporting Countries (OPEC) countries, it was observed that from 2010 to 2018, Gross National Product (GNP) per capita decreased on average by 1.3%; while in the rest of the developing world, there was a per capita growth by an average of 2.2%.

The summarized negative impacts of the Resource Curse include: Excessive borrowing, Dutch disease, Corruption, Government complacency, Neglect of education and Violent uprisings (Robinson, Torvik. & Verdier, 2006).

Nigeria over the years faced a lot of problems associated with social and economic hardships occasioned among other things by bad governance, poor fiscal social contracts, failed policies, a corrupt political class and over reliance on natural resources (Porter & Watts, 2016). It is strongly believed that the presence of oil in Nigeria is the reason why there is ‘a tribe of rent seekers’, whose only contribution to development is the creation of distortions. And in the words of one senior Government official: ‘We live in two nations one for the rich and the other for the poor, called Nigeria’.

It is very clear, then, that Nigeria’s damning state of underdevelopment is no doubt a result of the Resource Curse. In Nigeria, revenue from oil had caused national corruption scandals. Despite the return of democratic institutions and reform efforts like the Excess Crude Account, Sovereign Wealth Fund, Oil and Gas Implementation Committee of 2000, National Oil and Gas Policy 2004 and the contentious Petroleum Industry Bill (PIB) as well as transparency efforts spearheaded by Nigerian Extractive Industries Transparency Initiative; little effect has been reported because of over dependence on revenue collected rather than the equitable distribution of the revenue and government expenditure.

Against the backdrop of the Resource Curse while drawing lessons from history, empirical studies (Agbaeze & Ukoha, 2018; Sachs & Warner, 2001), and other efficiently managed, fiscally disciplined and accountable resource rich countries, this study briefly examined the resource curse, its challenges and policy initiatives that can help Nigeria manage its malaise.

2.0 OIL AND NATURAL RESOURCE GOVERNANCE DYNAMICS

Oil extraction in Nigeria started in June 5, 1958 after Shell-BP came upon the “curse” while drilling at Oloibiri in present day Bayelsa State, south-south Nigeria. Fifty- nine years or half a century on, Nigeria has raked over 800 billion US dollars in oil rents, yet, poverty continues to ravage over 60% of her over one hundred and seventy million population. Nigeria’s recorded reserves of oil are evaluated at 37,062 billion barrels (OPEC. 2017). Oil is, at the same time, the main export product of Nigeria. The quota of Oil in exports of goods rose from 10% to more than 90% between 1962 and 1974 and was above this level until 2009. Between years 2010-2013, the quota of oil in exports of goods fell below 80%. After that, oil’s share in export of goods grew again and its short- term drop was therefore only a reaction to the crisis. In 2014, oil accounted for 91% of export of goods again. Other minerals, ores and metals reached 7.16% share of exports of goods in 1968, then dropped to below 1% in 1975, where it remained until 2010, when it once again accounted for 1.08% of export goods (World Bank Group, 2017).

As an economy, Nigeria is not spared from problems of microeconomic stability, growth and infrastructural deficit. Oil revenue and subsequent oil booms have only led to extravagant spending, corruption and what many have referred to as the natural resource curse (Idemudia, 2012). As a federating unit, oil rents are shared between the three tiers of government thus: Federal Government- 52.68%, State Government- 26.72% and Local Government- 20.6%). Within this structure of revenue allocation, those in power still grumble that there are scarce funds to fund public services- education, health, and demanding infrastructure.

However, the Economic and Financial Crimes Commission (EFCC) on the other hand, reported that just between 2009 and 2013, over US $25.4 billion was siphoned out of Nigeria. Corruption in Nigeria’s natural resource governance structure and mechanisms cannot be overemphasized. One of the dangerous ills of the status quo is poverty and the widening gap of inequality between the rich and the poor. The danger, like revolutions in history - Russian, Chinese, French, US and more recently, the Arab Spring have shown, is that Nigeria is threatened by poverty and mass unemployment. Contemporary Nigeria seems like a fertile ground for popular revolt if the current inequality situation is not addressed (Atkinson & Hamilton, 2003).

Theoretically, Natural Resource Governance comprises of the norms, institutions and processes that determine how power and responsibility are exercised, how decisions are taken, and how citizens participate in the management of natural resources. According to the Natural Resource Governance Institute- Resource Governance Index (RGI), three mechanisms commonly used to govern natural resources-oil, gas and minerals include State-Owned Companies, Natural Resource Funds, Sub- National Revenues. In Nigeria, these three mechanisms are currently in use:

a. State-Owned Companies: Nigerian National Petroleum Corporation (NNPC) is the autonomous state- owned company that manages the bulk of Nigeria’s oil. Dispute over the secrecy of its dealings, business conduct and administration of the subsidy regime has drawn many criticisms on the company. If the successive corruption scandals that have rocked the company and its failure to maintain refineries and provide petroleum products are taken into consideration, there would be no denying the fact that the state- owned company has failed in managing Nigeria's oils resources for the benefit of its citizens.

b. Natural Resource Funds: Again, in an attempt to ensure fiscal certainty, a Sovereign Wealth Fund was created in 2011 with One Billion Dollars in seed money.

c. Sub-National Revenues: There is also the Excess Crude Oil Account which receives revenue from oil extraction.
Constitutionally, the Central Bank and the Ministry of Finance oversee the account. However, in practice, the President has substantial control over deposits into and withdrawals from the account. Conflicting political and policy positions between the Federal and State governments over stoppage of payment into the Excess Crude Account and less emphasis on the Sovereign Wealth Fund has accounted for a challenge towards national savings. The conflicting position and the legal battle instituted by the State governors against the Federal government have made sharing of the excess crude funds a preferred tradition. This has reduced the capacity of the economy to hold out against financial trauma resulting from falling oil prices. Furthermore, the national Assembly's stance on oil bench mark in the budget over the years removed the possibility of savings by refusing a conservative budgetary oil bench mark that would have provided savable oil rents.

d. Sub-National Transfers: Sub- national transfers represent the 13% inference that oil- producing states receive in addition to their share of the revenue allocation. Although, the Ministry of Finance publishes information regarding these transfers, accountability challenges and the absence of significant socioeconomic effect in the oil producing states remain a matter of concern.
A critical examination of the effect of these Natural Resource Governance Mechanisms in Nigeria suggest that more is still left to be hoped for given that the current national financial challenges clearly show that Nigeria is not safe with this status quo (Porter & Watts, 2016). Therefore, strengthening, reforming and reshaping the present resource governance structure while considering proposals for the future is necessary.

3.0 NATURAL RESOURCE REVENUE MANAGEMENT EXPERIENCES

The Contribution of Oil to Government Revenue: From an analysis of Annual Reports made by the Central Bank of Nigeria, there has appeared to be steady progress in the amount of revenue contributed by the oil sector since 1980. While oil contributed 56% in 1980, the figure for 1985 was 76.2%. This figure had gone down to 70.6% in 1998; and in 2005, a breakdown of total revenue accruing to the government showed that oil contributed 78% -_against 15% from the non- oil sector and 7% from the independent sector. However, the general perception of most stakeholders is that oil contributes an average of 95% to government revenue in total. This comes as a result of the total breakdown of infrastructure and a declining level of capacity utilization in the real sector. Yet government efforts to improve contributions from the non- oil sector to national revenues have not yet yielded notable results. It is quite amazing that the stupendous revenue gained from oil has not been reflected in the rate and level of development in Nigeria (Arndt & Oman, 2006). Rather, is has become a major source of our problem. Some of these problems include:

i. Corruption

The major challenge for Nigeria include ways and means of curbing a corruption that seems to have eaten very deeply into the national fabric, with its attendant consequences. The Guardian newspaper, in a recent editorial, had this to say of corruption in Nigeria: "Corruption in public places, looting the treasury, bribery, inflation of contracts, political chicanery and the brazen mismanagement of public resources and institutions is common and recurrent in the country". The public is however, fully aware of the disastrous impact of all these on national growth and development.
Evidence can be seen in the country's chronic underdevelopment. In the last 40 years, the quality of human life has dropped, in general, as evidently seen that Nigerians have witnessed a great failure in these aspects of their lives: education, health care, roads, electricity supply, the national employment profile, and public institutions as a whole.
The country has made more money from the sale of crude oil in the last 10 years than perhaps in the preceding 20 years. Where has all the money gone? Under the present government, institutions and public infrastructure have practically collapsed due to corruption.

ii. Government Complacency

Nigeria, like most countries owning such important resources, is in a situation where there is complacency and a lack of attention that it has become evidently clear that there is need for economic diversification. This is due to the high profitability and ready availability of resources. For example, while a country like Indonesia invested its oil resources in agriculture, Nigeria has not. Nigeria chose to invest in services and manufacturing. As a result of the inadequacy of manpower and proper incentives, however, most projects here were not sustainable, thus subsequently collapsed. The social infrastructure is run down. Electricity supply is so unreliable that most households and industries rely on imported power generators so as to generate their own power supplies.

iii. Neglect of Education

Over the years, there has been serious neglect of the Education Sector. Funding for education has been reduced and is far below the needs of institutions. Teachers have been owed salaries for months. This has been seen as an attempt to 'crowd out' human capital - which is a major 'challenge' for many countries that rely on natural export, for they see no immediate need for such capital. Resource- poor countries, on the other hand, like Taiwan and South Korea, have made enormous efforts with regards to education and investment in education, and this has contributed in part to their economic successes. The large number of Nigerian Students attending schools in Europe, America and some other countries presents as a sad testimony to the neglect of the Education Sector in Nigeria.

iv. Excessive Borrowing

The debt situation in Nigeria has been such that Nigeria has lost all respect in the international business community. According to the Debt Management Office (DMO), Nigeria owed about US $86.3 billion at the end of December 2020. Over 9.55% was owed to the Paris Club, and 80% to multilateral lenders. The London Club debts and promissory notes amounted to 10.45%. The debt burden was so heavy that it remained 'precarious' by any traditional indicator. This led to high ratios of debt stock and debt servicing in relation to GDP.

As to be expected, Nigeria's debt rose as a result of its massive amount of external borrowing in this administration, which was largely to offset a collapse in oil prices and, of course, the bulk of the borrowing was not linked to future growth or exports. There was insufficient regard given to viability, and there was poor implementation due to weak absorptive capacity and governance problems and there was a mismatch between loan terms and project profiles.

The devastating effects of debt mismanagement led to huge arrears, penalties and interest that accumulated over the years 1985-1990. In December 2000, when an attempt at rescheduling was made, the principal

Sum was US $10.3 billion; while interest arrears were US $4.45 billion and late interest US$5.18 billion. Depreciation of the US Dollar between 2002 and 200 3 then led to an increase in debt stock by US S4billion.

The consequences of the above state of affairs include the fact that debt servicing diverted resources from spending on human development and infrastructure. This diversion of resources put a strain on investors' perceptions of Nigeria's investment potential, and encouraged capital flight. It also led to a lack of export credit cover (World Bank Group, 2017).

v. The Dutch Disease

According to Stiglitz (2012), oil and other natural resources, while perhaps being a source of wealth, do not create jobs by themselves, and often crowd out other economic sectors. For example, an inflow of oil money often leads to currency appreciation - a phenomenon called the *Dutch Disease*. The Netherlands, after its discovery of North Sea gas and oil, found itself plagued with growing unemployment and workforce disabilities (many of those who could not get jobs found disability benefits to be more generous than unemployment benefit).

When the exchange rate soars as a result of resource booms, countries cannot export manufactured or agricultural goods and domestic producers are unable to compete with an onslaught of imports. So abundant natural wealth often creates rich countries with poor people, as is the case with Nigeria, where although the country is reputedly rich, the majority of its citizens are poor.

vi. Violence in Oil Communities

Another major challenge and problem related to the presence of oil in Nigeria ha s been the steady rise in violence in oil-producing areas. It is instructive to note that, by 1999, oil-related unrest had assumed a frightening dimension in the Niger Delta region of Nigeria. The violence manifested itself in different forms, and included kidnapping oil workers and members of their family (usually for ransom), and the disruption of oil and gas operations (Osaghae, 2015). The nature of conflicts in the Niger Delta region of Nigeria can be put into five major categories, which are: intra-community, inter-community, inter-ethnic, Community- Oil Company, and States-Federal Government.

4.0 POLICY ENTRY OPTIONS

In view of the very damning state of affairs, the question that needs to be addressed now is whether there can be ways around the negative effects of the Resource Curse in Nigeria. The answer that stands out most is simply this:

To work towards increased transparency and for more accountability in the management of public revenue (ivwurie & Akpan, 2021). With ongoing attempts at a consolidation of democracy in Nigeria and the political and economic reforms that are envisaged, there is a strong belief within and outside Nigeria that this can be achieved. Yet most people believe that there is still a need for an increased stakeholder impact in the quest to improve resource management in Nigeria.

According to Devarajan, Ehrhart, Rabahland, & Le (2011), setting up an interaction, usually referred to as Fiscal Contract between Citizens and the State, with the former holding the latter accountable, is key to ensuring accountability in resource-rich countries. State building is shaped by state-society engagement, and taxation is a strategic nexus between the state and society. To create the platform for these engagements (state-citizen), Nigeria can consider the direct distribution of oil revenue to citizens to encourage a fiscal social contract in what Moss and his colleagues call "oil to cash" (Moss, Lambert, & Stephanie Majerowicz, 2015). Oil rents can be distributed directly to citizens and taxed by government. With a stake in government's budget process, Nigerians could then begin to hold government accountable for service delivery. Apart from improving the social contract, evidence exists that direct distribution of resource revenue can reduce chronic poverty and inequality, boost consumption and stimulate local businesses and economy and also increase school attendance and health care visits. As a policy, this can be considered in the long term. This long term policy option is important in the sense that it will improve taxation, state-citizen engagement and prevent situation where the discharge of budgetary obligations and the preservation of financial stability depends on the dynamics of the market price of a commodity that no one can control. A strict budgetary policy must be hurriedly considered. Government is to reduce its expenditure once there is a fall in oil prices and vice versa. A consideration of some available policy 'entry points' will serve as a prelude to policy recommendations and conclusions.

5.0 CONCLUSION

Various institutions advocated for more intelligibility and accountability in the supervision of oil revenue in resource rich countries as a magic potion for solving the problem of resources management.

Most institutions like Transparency Initiatives, International Monetary Fund (IMF), point on resource revenue transparency among others, as measures to put in place. But little impact has been realized because these mechanisms do not address upstream activities, such as procurement, which constitute a significant part of the value chain in oil and gas, nor does it cover the distribution of income and government expenditure stemming from the extractive industry revenue. Long term policy option is also important in the sense that it will improve taxation, livelihoods, state- citizen engagement, reposition state institutions and prevent situation where the discharge of budgetary obligations and the preservation of financial stability depends on the dynamics of the market price of a commodity that no one can control since welfare of the citizenry is the number priority of the government.

Finally, Stiglitz (2012) highlighted that although the world should be delighted a s a result of further discoveries of precious earth materials in several African countries- including Ghana, Uganda, Tanzania, and Mozambique-the dilemma still lives on: would these discoveries be a source of blessing or a malaise of curses which the continent would have to grapple with, as countries therein have had to deal with too?

REFERENCES

1. Agbaeze, E., & Ukoha. K. (2018). Oil a blessing or a curse: The Nigerian experience. *European Journal of Social Sciences*, 56(3), 262-270. Retrieved from http://www.europeanjournalofsocialsciences.com/
2. Arndt, C., & Oman, C. P. (2006). Uses and abuses of governance indicators. *In SSRN Electronic Journal* (1st ed.), Paris.: OECD Publishing.
3. Atkinson, G.. & Hamilton, K. (2003). Savings, growth and the resource curse hypothesis. *World Development*, 31(11). 1793— 1807 https /oi orWl0 lOl6Ji orlddev 2003 05 001
4. Fickling David (2021). Nigeria's Oil Curse could become an opportunity.
5. Devarajan, S., Ehrhart, H., Raballand, G., & Le, T. M. (2011). Direct redistribution, taxation, and accountability in oil- rich economies: A proposal. In SS.RN Electronic Journal (No. 202.416.4000 (f 202.416.4050 Shantayanan). Massachusetts Ave., NW Washington, DC. https://doi.orgi 10.21 39/ssrn.2009385
6. Idemudia, U. (2012). The resource curse and the decentralization of oil revenue: The case of Nigeria. Journal of Cleaner Production, 35, 183— 193 https 91o1 org/b 10161j jclepro 2012 05 046.
7. Ivwurie, E. A. & Akpan, E. E. (2021). Strategic corporate social responsibility and sustainability of multinational corporations in Nigeria. *Research Journal of Business and Management*, 8 (2), 51-61.
8. Mähleries, A. (2010). Nigeria: A prime example of the resource curse? Revisiti g the oil- violence link in the Niger Delta. German Institute for Global and Area Stud ies ('GIGA), 120,1—39.
9. Marshal, I., Nkwadochi, C. K., & Emmanuel, A. (2020), COVID19 pandemic. global trade wars and impact on the Nigeria economy. Academic Journal of Current Research, 7(5), 7 1—82.
10. Mehium, H., Moene, K., & Torvik, R. (2006). Institutions and the resource curse The Economic Journal, 116(1), 1—20. https://doi.org/10. 1007/978-3-540- 79247-5j3
11. Moss, T., Lambert, C., & Stephanie Majerowicz. (2015). Oil to cash: Fighting the resource curse through cash transfers. In N. Birdsall (Ed.), Global Policy. Washington, DC 20036: Center for Global Development. https://doi.org/10. 1111/1758-5899.12069
12. Okpanachi, E., & Andrews. N. (2012). Preventing the oil resource curse in Ghana: Lessons from Nigeria. World Futures: *The Journal of New Paradigm Research*, 68(6), 430—450. https://doi.org/1 0.1080/02604027.2012.693854
13. OPEC'. (2017). The organization of the petroleum exporting countries (OPEC), annual report. In COSEWIC Annual Report. Vienna, Austria. Retrieved from w.opec.org
14. Osaghae, E. E. (2015). Resource curse or resource blessing: The case of the Nig erDelta oi1 republic' in Nigeria. Commonwealth and Comparative Politics, 5 3(2). 109-129. https:/fdoi.org/10. 1080/14662043.2015.1013297
15. Porter, D., & Watts, M. (2016). Righting the resource curse: Institutional politics and state capabilities in Edo State. Nigeria. Journal of Development Studies, 53(2). 249-263. https:' doi.orgl 10.1080/00220388.2016.1160062
16. Robinson, 3. A., Torvik. R.. & Verdier. T. (2006). Political foundations of the re source curse. *Journal of Development Economics*. 79(2), 447-468. https:ioi.org!10, 101 6/j .jdeveco.2006.0 1.008

17. Sachs, 3. D.. & Warner. A. M. (2001). Natural resources and economic develop ment: The curse of natural resources. European Economic Review, 45. 827-838. https:ioi.org/10.10l6/S00l4-292l01) 00125-8
18. Shobande, O. A., & Enernona, 3. 0. (2021). A multivariate var model for evaluating sustainable finance and natural resource curse in west Africa: Evidence from Nigeria and Ghana. Sustainability ,‘Switzerland, 13(5), 1-16. https:/ doi.org/ 1 0.3390/su13052847
19. Stiglitz. J. E. (2012). Macroeconomic fluctuations, inequality, and human development. *Journal of People Centered Development*. 13(1). 31-58. https:. ‘doi.org/10.l0S0/19452829.2011.643098
20. Umar, M.. Ji. X.. Mirza, N.. & Rahat, B. (2021). The impact of resource curse o n banking efficiency: Evidence from twelve oil producing countries. Resources Policy, 72. 102080. https:oi.org 10.101 61j.resourpol.202 1.102080
21. Wacziarg, R. (2012). The first law of petro politics. Economica, 79(316), 641- 657. https:oi.orgf 10.111 i/j. 14680335.201 1.00902.x
22. World Bank Group. (2017). Annual report 2017 end extreme poverty. Retrieved from http://pubdocs.wor1dbank.org/en90848 1503403 75:4670/.annual..Report.. 201 7WBG.pdf