Mono Cultured Economy and National Development: The Nigerian Explanation

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ABSTRACT
Oil since its discovery has dominated the Nigerian economy, oil exports has contributed 98 percent of the Federal government revenues. This overdependence has made the Nigerian economy unstable, non-static and has displayed a large overdependence on oil incomes. There has been over reliance on these oil revenue has affected the agricultural sector and the economy. It is against these that this study examines how the overdependence on oil revenue has affected the Nigerian economy. It further investigates factors that could minimize the overdependence on oil revenue as a way to enhance National development. With reliance on secondary data, the paper made observations that the downstream sector has been the most problematic sector over the years amongst other sectors of the industry. It further observed that domestic consumption and exportation of oil products has had a positive impact on the economic growth of the nation.

Keywords: Economy, Oil, Agriculture, National Development, Overdependence

1. INTRODUCTION
Agriculture was the mainstay of the Nigerian economy prior to 1970, as it served as the biggest source of foreign exchange. The sector contributed about 60 percent of Gross Domestic Products (GDP), more than 70 percent foreign exchange earnings and 90 percent source of employment (Nigeria Institute of Social and Economic Research [NISER] 2001). However, the full scale exploitation of oil around this period meant the relegation of the agricultural sector to the background as it managed to contribute only 31 percent to the GDP by the early 1980s (Adefolaju, 2014). By the early 1970s, Nigeria had shifted attention to the oil sector to the detriment of all other sectors of production, especially agriculture, resulting in the steady decline in the share of non-oil exports and corresponding increase in oil exports. In 1960, for instance, oil exports contributed 2.7 percent to total exports as against 97.3 percent contributed by non-oil exports. However, oil export took a leap from about 58 percent of total exports in 1970 to 97 percent between 1980 and 1984 and subsequently risen from a year to another (Adefolaju 2014). By the 2000 crude oil and gas export earnings accounted for about 98% and about 83% of federal government revenue. (Ibegbu, 2008).

In Nigeria as at today and the world, oil has become a major source of energy prior to the discovery of oil in Nigeria, agriculture generated the highest revenue for the nation. Agriculture played a prominent role at molding the Nigerian economy (Odularu, 2008). As at the early 1960s, agricultural produce gave about more than 80% of the earnings from exportation and cash crops like cocoa, cashew and groundnuts added to the total from export earnings. Internal and external economy was solely dependent on vitality and productivity of agricultural commodities (Ogunjobi, 2008). The Nigerian foreign exchange earned about 72% from agriculture which was against the 1.1% from mining and crude oil in the 1950s. Between the years 1960-1970, the foreign exchange earnings from mining and crude oil stood at 1.2% and 7.5%
respectively (Oloruntogbe, Akinsete & Odutayo, 2009). Towards the year 2006, it was accounted that crude oil alone generated an income of 61.2% and 8% of the budget revenue (CBN Report, 2006). These could be partly attributed to the major discovery of oil in the country which affects and is affected by economic and social components. A major shift from the agro economy to the crude oil economy has generated a mixed feeling among the citizens; to some it’s a blessing while to others it’s a curse to Nigeria. It’s a blessing in its terms of large income revenue generation while it is so little in its economic stability and infrastructural development. To the people of the Niger Delta region who serve as the bird that laid the golden egg (crude oil) felt they were neglected due to the marginalization and oil spillage that affected their region. Neglect, oil spillage and marginalization of the Niger Delta region have been a major cause of the problems in the region. Thus, the objective of this study is to assess the impact of overdependence on oil revenue to Nigeria economy, determine the factors that could minimize Nigeria’s overdependence on oil revenue and evaluate the problems encountered by the Nigerian oil sector. The critical question of to what extent does has the overdependence on oil revenue affected the Nigeria economy and factors that could minimize the overdependence on oil revenue in Nigeria constitute the concerns of this paper.

2. Statement of Problems
The relevance of crude oil to the national development of Nigeria cannot be over emphasized as the evidence presented in Binda and Van-Wijnbergen (2008) which states that Nigeria gained an extra $390 billion in oil-related fiscal revenue between 1971 and 2005, or 4.5 times 2005 gross domestic product (GDP).

Unfortunately, the development has been bedeviled by sustained underdevelopment evidenced by poor human developmental and economic indices including poor income distribution, militancy and oil violence in the Niger Delta, endemic corruption, unemployment, relative poverty (Nwezeaku, 2010). Irrespective of Nigeria’s huge oil wealth, the country has remained one of the poorest in the world. In particular, the Niger Delta which produces the oil wealth that accounts for the bulk of Nigeria’s earnings has also emerged as one of the most environmentally degraded regions in the world evidenced from the World Wildlife Fund report released in 2006 (Ekaette, 2009).

3. REVIEW LITERATURE
3.1 Historical Background of Crude Oil Exploration in Nigeria.
The history of petroleum industry in Nigeria revealed that oil was first discovered in 1956 at Oloibiri in the Niger Delta, the discovery was made by Shell-BP while production and exportation started by the year 1958 (Usman, Madu & Abdullahi, 2015). Crude Oil since after the first exploration have continued to play a significant role and accounted for about 90% of Nigeria total earnings. This predominant role has pushed other sector especially Agriculture, the traditional main-stay of the economy, from the early 50’s and 60’s; to the back ground (Azaiki, 2007). In the early period, Government interest in oil exploration was only limited to the collection of royalties from the companies and making rudimentary laws to regulate the activities of the oil industry. This low interest was partly due to the insignificant contribution of the commodity to Nigeria’s economy before the late sixties and the relative lack of trained personnel and expertise. By 1971 however, oil had assumed a different dimension in terms of importance to the economy. To strengthen and establish government control in the industry, the Nigeria’s National Oil Corporation (NNOC) was established by Decree in 1971. Also in that year Nigeria joined the OPEC as the 11th member nation (Odularu 2008).

The NNOC was accorded the responsibility for both upstream and downstream activities in the oil industry. But the regulatory functions were vested in the Ministry of Petroleum Resources (Odularu 2008). As a result of all these developments, Government had acquired a new stature and so decided to participate actively in the industry’s activities. In April 1, 1977, a merger was effected between the NNOC and the Ministry of Petroleum Resources which gave birth to the Nigerian National Petroleum Corporation (NNPC). NNPC combined the commercial functions of the NNOC with the regulatory functions of Ministry of Petroleum Resources. This was to prevent unnecessary duplication of effort and possible unhealthy rivalry that could be inimical to the national economy following the discovery of crude
oil by Shell D’Arcy Petroleum, pioneer production began in 1958 from the company’s oil field in Oloibiri in the Eastern Niger Delta. By the late sixties and early seventies, Nigeria had attained a production level of over 2 million barrels of crude oil a day. Although production figures dropped in the eighties due to economic slump, 2004 saw a total rejuvenation of oil production to a record level of 2.5 million barrels per day. The Petroleum sector being a capital intensive sector provides 80% of the budgetary revenue, 95% earnings from foreign exchange and contributes over 14% to the GDP. Survival of the nation Nigeria is heavily dependent on crude oil for survival. The rise in Crude Oil price in 1999 made Nigeria one of the fastest growing countries in the world with the International Monetary Fund projecting a growth of 9% in 2008 and 8.3% in 2009 respectively (Anthony, 2012). Current development strategies are aimed at increasing production to 4million barrels per day by the year 2010. Petroleum industry in Nigeria has been described as largest among industries in the country. This could be due to the fact that the industry is believed to be one of the major sources of energy widely known. The size, international characteristic, and role assumed by the petroleum industry were noted to have originated from the notion that petroleum is versatile as it currently satisfies a wide variety of energy and related needs. Petroleum is the most vital source of energy, providing over 50 percent of all commercial energy consumption in the world (Onwe, 2012). The revenues obtained from crude oil in Nigeria are of absolute advantage to expenditure commitments on various projects at the local, state, and federal levels.

3.2 Oil Sector Performance and National Development in Nigeria

From the assertion of Odularu (2008), oil sector in Nigeria is categorized into three sub sectors; which includes the upstream, downstream and gas sectors. To him, the downstream sector has been the most problematic sector over the years amongst other sectors of the industry. Its problems lie in its delay to distribute and deliver refined petroleum products to its final consumers (the citizens) in the domestic economy. The incessant crisis in supply of petroleum products in Nigeria culminated in the decision by Government in 2003 on the deregulation of the downstream sub-sector. Nevertheless, the implementation of this policy has been controversial because it ignores the economic realities in Nigeria (Odularu 2008). Joint Venture (JV) companies accounted for 95% of Nigeria’s crude oil production. One of the largest joint venture; Shell operates with about 55% Government interest (through the Nigerian National Petroleum Corporation, NNPC), produces about 50% of Nigeria’s crude oil. Exxon Mobil, Chevron Texaco, Eni/Agip and TotalFnaElf operated the other joint venture companies in which the NNPC has 60% stake. Nigeria’s overdependence on oil has created vulnerability to the vagaries of the international market, as observed in the proceeding section that show the contribution of oil to some macro-economic variables (Odularu, 2008).

Oil to an average Nigerian is more profound since the government’s deregulation of the downstream sub-sector of the industry in 2003. The inconsistency is additionally glaring now with the current ascent in unrefined petroleum prices at the global markets, which implied more outer profit for Nigeria, additionally expanded the burden on imported refined petroleum items! It is such disagreements that make the Nigerian economy seem weird on occasion, as approaches appear to disregard what seems evident to do. Thusly, approaches intended to address the inadequacies and deformities in the structure wind up being inadequately explained or potentially executed on account of regional, political or lease looking for narrow minded interests. Obviously, it is the same rent-seekers that continually sabotage the reinvigoration of the domestic refineries, making Nigeria to depend on importation of refined products to meet the domestic need. At present, Nigeria has four refineries, with a combined installed refinery capacity of 445,000 barrels per day (Odularu, 2008). NNPC has four refineries, at Kaduna, Port Harcourt and Warri have a combined installed capacity of 445,000 bpd. A comprehensive network of pipelines and Depots strategically located throughout Nigeria links these refineries (NNPC, 2016). NNPC, through its subsidiary, the Pipelines and Products Marketing Company (PPMC), supplies only to bulk customers. They, in turn, meet the needs of millions of customers across the country for products ranging from gasoline and jet fuel to diesel, fuel oil and liquefied petroleum gas. NNPC produces linear alkyl benzene, benzene, heavy alkylate and deparafinated kerosene at its Kaduna Refinery complex. Linked to the Warri Refinery are a 35,000 metric ton per annum (mtpa) polypropylene plant and an 18,000-mtpa carbon black plant.

The capacity of these refineries altogether, exceeds the domestic consumption of the refined products. Above all, the demand for premium motor spirit (PMS) is about 33 million liters daily. Meanwhile, the four mentioned refineries are producing far below their installed and expected capacities as they were more or less abandoned during the military era, skipping the routine and mandatory turn around maintenance that made products importation inevitable. Importation notwithstanding, there have been persistent product shortages that gave strength to the argument for deregulation of the downstream oil sub-sector in Nigeria. Monetization of oil revenue has been a major factor in liquidity management in Nigeria. The civilian administration sustained the fiscal operations for a period of a year and thereafter, the floodgates were opened. Ever since, the Central Bank of Nigeria has been struggling to keep liquidity in check so as to ensure that it does not create adverse effects on the three key macroeconomic prices (i.e. inflation rate, interest rate and exchange rate).

The biggest challenge is when Nigeria generates more revenue from crude oil sales than it budgeted, like now. Such excesses have always been monetized, creating marketing distortions and inflationary pressure (Adedipe, 2004). Despite the various constraints faced by the nation’s upstream sub-sector, the industry has produced some encouraging developments. The nation’s crude oil reserves, which was put at 28 billion barrels at the beginning of 2001, increased to 32 billion barrels by the beginning of 2002 and is projected to grow to 40 billion barrels by the year 2010 (Lukeman, 2003; Aigbedion, 2004). Nigeria’s crude oil productivity is also expected to grow from its current level of 3.3 million barrels per day to 4 million barrels by the year 2010. These figures exclude condensates and NGL volumes. Which together are currently in excess of 400 thousand barrels per day, according to industry analysts, the nation’s crude oil reserve has recorded a significant surge in recent times due to positive developments in the deep offshore areas of the Niger Delta. Some of the new fields include: Bonga field belonging to Shell Nigeria Exploration Company (SNEPCO’s); Erha field (Exxon Mobil); Abo field (Agips); Agbami field (Chevron-Texaco) and Amenam/Kpomo field (Elf Petroleum).

4. Methodology
To address the highlighted objectives, the paper relies on documented materials from the library and internet for data gathering.

5. The Contribution of Petroleum to National Development
The discovery of crude oil in commercial quantities in Oloibiri in 1956 played an important role in the country’s leap from a cash crop-based to an oil-based economy. In the 1970s, the nation invested heavily in oil infrastructure through the construction of refineries, storage depots, and pipelines. Subsequently, refineries were built in Port Harcourt, Warri, and Kaduna, while storage depots were installed in Aba, Enugu, Oredo, Satelite Town (Lagos), Makurdi, Ilorin, Suleja, Kano, Gombe, Gusau, Minna, Jos, and Mosimi to facilitate the processes of oil distribution (Eke and Enibe 2007). Previous studies on the Nigeria economy in the last decade show that the petroleum industry has been playing a dominant role and occupies a strategic position in the economic development of Nigeria (Azaiki & Shagary, 2007). This is evidenced by the total oil revenue generated into the Federation Account from 2000 to 2009 which amounted to N34.2 trillion while non-oil was N7.3 trillion, representing 82.36% and 17.64% respectively. The mean value of oil revenue for the 10 year period is N3.42 trillion compared to non-oil revenue at N732.2 billion (Central Bank of Nigeria, 2011). Further evidence was ten year’s average crude oil and condensates production of 832,866,752.1 barrels from 2000 to 2009. The importance of crude oil to the economic development of Nigeria cannot be over emphasized, Nigeria gained an extra $390 billion in oil-related fiscal revenue between 1971 and 2005 (Central Bank of Nigeria, 2011).

Gbadebo (2008) states clearly that crude oil production: domestic consumption and exportation has had a positive impact on the economic growth in Nigeria. Furthermore, percentage increase in crude oil production increases economic growth of Nigeria by over 0.01. On similar view, Onyemaechi (2012) in his work added that the contribution of petroleum to the growth and national development of the Nigeria can be enumerated in terms of the industry impact on the economic variables responsible for economic growth in Nigeria and it share of revenue generation in the Nigerian economy. From the foregoing we analyzed the impact of petroleum on Nigeria’s economy from the industry contributions to the growth and
development of the economy, using the variables responsible for economic growth in Nigeria. A number of funds are been set aside from crude oil revenue to contribute to development and growth of certain sectors including the petroleum sector. For example, Petroleum Technology Development Trust Fund is made available for the purposes of training Nigerians to qualify as graduates, professionals, technicians and craft men, in the fields of engineering, geology, science and management in the petroleum industry in Nigeria and abroad. We also understand that petroleum revenue is one of the major sources of fund to Education Trust Fund (ETF) and Tertiary Education Trust Fund (TETFUND). These agencies are performing wonderfully in Nigeria educational institutions from primary level to tertiary institutions in Nigeria (Usman, Madu & Abdullahi, 2015). For example, the new created Federal Universities are being financed from TETFUND. Order wise, there is no way the federal government could have been able to finance these universities amidst it tight economic situation.

6. Effects of Overdependence of Budget on Oil Revenue in Nigeria

Nigeria wasted much of her opportunities to break away from underdevelopment despite her massive natural and human resources endowments, in her chequered political history spanning over half a century. No wonder there has been hardly any consensus on the justification for Nigeria’s centenary celebration. Regrettably, Nigeria has dwelled only on her huge crude oil resources as the major source of revenue, driving a monolithic economy for years in spite of the enormous developmental challenges she faces. More painfully, the oil resources are being mismanaged and a substantial part of it has gone on rent seeking and red-tapism common in Nigerian bureaucracy.

Nigeria economy greatly depends on crude oil production and the price of crude oil in the international market. However, the price of crude oil though favorable to Nigeria is not stable and any alteration in the price affects the economy of Nigeria.

The effect of oil dependency on Nigeria’s GDP appears to be affected by the global oil prices which determine the value of oil exports in Nigeria. The doctrine of comparative advantage is therefore not valid because changes in production did not affect the economic growth. However the value of oil ex-ports does appear to influence economic growth. And because the value of oil exports is determined by oil prices, it is oil prices which have caused Nigeria’s economy to experience volatile yet rapid growth.

According to the Statistical Bulletin of the Federal Bureau of Statistics, over 80% of total federally collectable revenue is expected every year from oil sector. In addition large proportions of estimated budget deficit are always financed from excess crude oil revenue. In a situation where government expenditure depends solely on revenue derived from a resources with a volatile price, the objectives of the budget may not be fully realized if prices fall. For instance, the budget of 2000 which was the first full budget to be formulated and implemented by the civilian administration in Nigeria’s third republic, which the initial conditions of the budget were one, in which the external front, the economy was characterized by the notorious and lingering problems of high external debts overhang, heavy import dependence, high export concentration in favour of petroleum oil, and the related problem of low level of non-oil export competitiveness (Ijeh 2010).

On the domestic front, economic growth was still stunted as the Gross Domestic Product (GDP) grew at the rate of 2.7%, both the private sector and the industrial base were weak, agricultural productivity remained low, the incidence of poverty was outrageously high, at more than 60% of the population, the rate of unemployment was yet to abate, but inflationary pressures had been successfully contained as the rate of inflation was about 6.6% at the end of 1999. All this shows that the performance of the Nigerian economy was lackluster and needed to be salvaged, it was on this basis that 2000 budget was drawn. But the government failed to achieve the aim of this budget due to overdependence on oil revenue and poor implementation (Ijeh 2010).

So in this case, there is a dire need for a fundamental restructuring of the economy away from the petroleum sector, good governance is the only condition for economic recovery and development, and the economy should remain open within the frame work of globalization and liberalization of trade and exchange (Ijeh 2010).
7. Factors that could minimize Nigeria’s overdependence on oil revenue

To minimize Nigeria’s overdependence on crude oil as a major source of revenue, several scholars have proposed series of models. These proposals were not made lightly as these authors have acknowledged that it is fraught with controversies. However, one of the most controversial debates in Nigerian economic and political discourse is the way government revenue is shared amongst its tiers of government in the nation (Agbaeze, Udeh & Onwuka, 2015). Allocation of revenue in Nigeria from the federal government account to the different tiers of government has stated that it is necessary that a number of factors should be considered if success is to be achieved in a bid to diversify revenue (Abayomi (2006). These factors are:

1. **Agriculture**: agriculture used to be the mainstay of the Nigerian economy which plays a vital role in shaping the economic and political destiny of the country. Agriculture has been the foundation of industrialization throughout the world because without agriculture, there would have been no industrial revolution in the first place. Agriculture provided the raw materials for the manufacturing industries. The industries, in turn, fuelled the expansion of agriculture to meet their raw materials needs and the food needs in industrialized nations. A report of the economic survey of Nigeria conducted in 1959 at the instance of the Federal Government showed that we earned 95.4 million pounds from yam exports and 86.1 million pounds from the export of cassava and garri. On the other hand, only 30 million pounds& 25 million pounds came from agriculture and cocoa respectively. A recent report released by the Food and Agriculture Organisation, FAO, of the United Nations showed that in 2008, Nigeria earned N56 billion naira from yam export. Nigeria is regarded as one of the biggest poultry producer in Africa, corporate poultry as increased from 40 million birds annually to about 70 million (Abayomi 2006). Agriculture is said to be a surer and more lasting source of revenue and a mighty grass root empowerment tool while our oil revenue is applied to complement agricultural & other viable sources of revenue (Isah, 2009).

2. **Tourism**: Tourism is also a factor that can aid less reliance on oil revenue for economic development and also a source of revenue for the country. The reality on ground is that tourism has become one of the most important global industries of today. With the increasing ease of travel and smoothness of movement across international boundaries the Nigeria tourism sector boasts of being one of the world’s biggest export earner generating enormous foreign exchange earnings and employment. It is no longer in doubt that tourism has become a catalyst for growth in Nigeria and in many countries like Australia, Cyprus, Kenya, etc, as it brings in substantial revenues for governments whilst stimulating greater investments in infrastructure which ultimately contributes to improved living conditions for the people. Between the years 2000-2006, tourism was the second largest foreign exchange earner after manufacturing for the Malaysian Government. 2006 saw a 6.8% growth rate in tourist arrivals in Malaysia with a 13.5% increase in receipts. In terms of employment, it is estimated that this industry accounts for remarkable 1,344,000 jobs of which 492,320 are direct employment. Nigeria and indeed Africa is well known for their „more than the usual hospitality (Abayomi 2006).

The traditional Nigerian society dwells richly in welcoming guests, strangers and visitors using various approaches and means. Locations such as beaches ideal for different kinds of games, unique wildlife, vast strips of unspoiled nature ranging from tropical forest, magnificent waterfalls and great artworks showcasing lifestyle and creativity of the Nigerian people. Some of these natural locations, sights and sounds of the people have been developed into tourism sites widely sought after by local and foreign tourists (Abayomi 2006).

The tourist’s sites which have attracted good number of visitors include Obudu Cattle Ranch in Calabar, Mambilla Plateau in Taraba State, Yankari Game Reserve in Bauchi State, Oguta Lake in Imo State, Lagos Sunburn Yatch Hotel. Beautiful festivals include, the OsunOsogbo Festival, The Argungu Fishing Festival, Ine Festival in Delta State, and the Iwa-Akwa Festivals in Imo State (Abayomi 2006). Ward (2008), an experienced hospitality consultant, and currently the award winner of African Investor’s 2008 Tourism Investor Adviser of the year in one of his article positioned that tourism is a potential growth sector and a source of revenue for Nigeria (Ogene, 2009).

3. **Taxation**: Taxation is a tool for economic growth and has been proven to be a veritable source of revenue for sustenance of most economies, including Nigeria. Nigeria derives its budgetary revenue from
taxation primarily from petroleum profit taxation, import and excise duties, and mining rents and royalties. Petroleum taxation accounts for 65 percent of the budgetary revenues. As of May 2000 the tax rate for assessable petroleum profit was 85 percent. In March 1995, the government established a new tariff structure levying taxes on imported goods, ranging from 5 to 60 percent. Import tax is non-preferential and applies equally to all countries. Import duties are either specific or advalorem (value-added tax, VAT) depending on the commodity. In 2000 the VAT rate was 5 percent (Abayomi 2006). Other sources of revenue from taxation include companies’ income tax (30 percent of assessable profit), capital gains tax (10 percent of capital gains), various types of licenses, and personal income tax. Employees “pay as they earn”. Such taxes are deducted at monthly pay periods by employers for the federal treasury. (Nations encyclopedia, 2009).

In 2000 the tax rate varied from 5 to 25 percent of cumulative or total taxable income. The government sought to collect the taxes by introducing tax clearance certificates. Individuals had to produce such certificates proving that they had paid their taxes, before receiving government benefits, holding public office, or receiving passports for foreign travel. Many countries around the world have built their economies mainly on a well-organized tax system & these economies have succeeded without any natural resources (Abayomi 2006).

4. Solid Minerals: Sustainable development of the solid minerals sector has been identified as fundamental to the diversification of the nation’s economic dependence on oil and gas. President Yaradua noted that the Ministry of Mines and Steel Development have embarked on coal to power project and also the development of the nation’s bitumen resources through competitive bidding as provided for under the Nigeria Minerals and Mining Act 2007 stressing that eleven strategic coal clusters have been identified across the country to generate electricity of at least 600 megawatts over the next 20 to 30 months and beyond under the Independent Power Project to ensure that operators with the financial & technical ability are attracted to the sector.

7. CONCLUSION

Conclusively, given the fact that the oil sector is a very crucial sector in the Nigeria economy, there is the dire need for an appropriate and desirable production and export policy for the sector. In Nigeria, though crude oil has contributed largely to the economy, the revenue has not been properly used. Considering the fact that there are other sectors in the economy like agriculture, tourism etc, the excess revenue made from the oil sector can be invested in them to diversify and also increase the total GDP of the economy and subsequently improve Nigerian National development.

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