CHALLENGES OF OIL REVENUE MANAGEMENT IN NIGERIA

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Abstract

It is significant to know how the huge revenue generated in Nigeria is managed in the face of perpetual underdevelopment. Nigeria's oil wheeled economy seems not spinning smoothly in the face of the huge oil sector revenue. Oil and gas actually generate great wealth, accounting for 95% of the nation's export and state revenues. The positive direct oil benefits are yet to be effectively translated to economic success. The inhibiting challenges are those of political leadership, corruption, neglect of women, illiteracy, among others. The end results have been perpetual underdevelopment and continual dependence on economically advanced countries. Political leaders are expected to manage the oil revenue to the benefits of the generality of the Nigerian citizens.

Keywords: *Oil Revenue, Economic Management, Challenges to Economic Success, Economic Policies*

INTRODUCTION

There are factors resulting in irresponsible management and lack of accountability amounting to failure of Nigerian economy. The IA World Fact book 2010 statistics, project that Nigeria is endowed with 36,220,000,000(36.2 billion barrels-5.76X 109 m3) of proven oil reserves, making the country second on Africa's proven oil reserve chart, and ranking the country as the second largest oil producer in Africa, globally the sixteenth behind Algeria. Nigeria is the 8th largest exporter in the world, (with a 2007 estimated export capacity of 2,327,000) and largest oil exporter in Africa ahead of Algeria, Libya, Angola, Equatorial Guinea and Egypt. In Nigeria, oil, gas and minerals, actually generate great wealth. Unlike some Western, Middle East and Asian counterparts, economic success stories in Nigeria is a mirage. Transparent International findings suggest that most oil-producing nations including Nigeria are also rife with corruption, and calls on oil companies to provide more information about their operations to help clean up the market (Associated Press, AP London, October 19 2004).

History of Oil in Nigeria

Odozi (2010) recalls that Oil was first discovered in Nigeria in 1956 at Oloibiri in the Niger Delta after nearly 50 years of exploration. Nigeria became an oil producing country in 1958, with the coming on stream of its first oil field producing about 5,000 bpd at the time.

After more discoveries were made, the oil fields became operational in the 1960s. By the late 1960s and early 1970s, Nigeria had achieved an output level of over 2million barrels per day bpd. Nigeria joined OPEC in 1977 and the output rose to 2.4m bpd as of 1979. Though production has witnessed booms and busts, Nigeria was able to achieve a record level of 2.5m bpd in 2004.

Oil Revenue Effects and Impacts on Nigerian Economy Social Conflict and Global Effects

Rising oil and gas prices have only added to geopolitical instability in the world's oil and gas-producing regions. The experience is that the more oil flow, the more oil income, then more corruption, and social conflict. In its 2008 Report on Revenue, Transparency International, TI, highlights that "high revenues from the extractive industries have often fuelled corruption, social conflicts, economic stagnation and inequality in host communities. The over-dependence of several major African nation states on oil funded economy is unhealthy. The impact of the OPEC regulated fluctuations in the global oil business, the wars and instability in most of the Middle East and Gulf States, local and international terrorism, America and China's insatiable appetite for oil, corruption and public sector collapse, drags Nigeria by the tail which adversely affect social life in Nigeria.

Corruption and Weak Institutions

The abuse of political power for private gain deprives Nigeria vital public services, which oil income could fund if properly managed. There is favoritism in government decision-making even in allocating oil blocs, an insufficiently independent judiciary, and security costs associated with high levels of crime and corruption. Oil businesses in Nigeria are associated with uncertainties stemming from weak institutions, corruption and crime, favoritism, easily influenced judiciary and a weak property rights regime. Nigeria lacks genuine credibility and convincing acceptability by majority of the people. The private sector in Nigeria as in most African countries has serious misgivings about the independence of the judiciary and the administration of justice. Legal redress in Nigeria is not expeditious and not transparent. It is expensive and such environment cannot provide veritable business atmosphere for investors and government to utilize and consolidate oil revenues. Odozi explains that Nigeria is prone to corruption arising from the pressures and opportunities associated with the huge flows of revenue.

Ailing Economy and Policies

The benefits of oil resources cannot be counted in Nigeria because oil revenues are not judiciously used as foundations for a widespread economic development. Nigerian economy should have become considerably competitive and reasonably viable, but oil resources is not channeled to provide quality infrastructure, flexible and efficient markets, healthy, well educated workforce, high levels of technological readiness and innovative capacity. What presently exists in Nigeria are out right sick, ailing or laboring economy weighed down by weaknesses in the institutional infrastructure. Nigeria suffers from poorly defined fiscal policies, undue influence, inefficient government operations, as well as unstable business environments. Nigeria is down because of poor macroeconomic management policies despite the huge oil export revenues.

Conceptual Definitions

Management and Accountability

Management is explained as the act of running and controlling a business- the people who run and control a business or similar organization, skill of dealing with people or situation successfully. Management and accountability means being held to account for entrusted resources. It involves an accounting system which is a set of records, procedures and equipment that routinely deals with the events affecting the financial performance and position of an entity (Horngreen, 1983). Management and accountability in this regard carries an obligation to render an account of how one made use of the resources entrusted in his care, and to submit to an examination of that account by him or on behalf of the trustee to whom he is accountable. Accountability in management is a condition for which individuals who exercise power are constrained by external and internal norms. Defined in traditional, legal or formal terms, management and accountability refers to the institution of checks and balances in an administrative system. Poor management leads to inefficient performance of government and public enterprises. Public management and accountability has been betrayed by some individuals in Nigerian government. So much is been said about the need for effective public management of oil revenue in Nigeria.

Revenue

Revenue is the money that a government receives from taxes or that an organization etc. receives from its business. It is further explained to mean government income that is, the income of a government from all sources used to pay for a nation's expenses; income from business, money that comes into a business from all the sale of goods or services.

Theoretical Framework of Analysis

The theoretical framework of analysis adopted in this research is the political economy approach. Political economy sees the society as made up of antagonistic economic interests. It explains that economic positions determine social life, values and thought, observing that identical economic interest combine to form social classes whereby political machinery is controlled. Ihonvbere (1990), writing on Nigeria as Africa's great power: constraints and prospect for the 1990s reasoned that political economy is an appropriate approach to the study of foreign policy. According to Amale (2002), the existing international studies literature, especially as it concerns foreign policy ignores the plight of underdeveloped countries such as Nigeria. He pointed out the appropriateness of the political economy approach provides the framework for understanding some of the theoretical problems in use by scholars. Political economy has a multi-disciplinary approach. It takes care of the overlapping character of economics and politics as well as the class cleavages which facilitate an understanding of state policies on the domestic and foreign scenes. Political economy also helps in the understanding of the nature of unequal relationship between the advanced and less developed states from a historical perspective. However the flexibility that the political economy approach requires may not come easily since it requires unhinging, from existing popular international studies literature that most scholars and practitioners of foreign policy are used to.

CHALLENGES OF EFFECTIVE OIL REVENUE MANAGEMENT IN NIGERIA

Several factors affect management of public funds in Nigeria, and these include:

A. Challenge of Political Leadership

Political leaders in Nigeria lack the required political will to control and supervise various units under them. These political leaders do not apply substantial sanctions against discrepancies to deter others. Nigerian political leaders lack accountability and have no interest in financial rules. Most officials are not answerable to their immediate superiors due to improper political appointments (Abisoye 1994). Accountability is the product of good leadership. Every public officer in a leadership hierarchy is a custodian of public resources and should be accountable to the citizenry during and after the tenure of his leadership. Many public officers do not lose political power or office in the face of allegation of corruption or when they have individually or collectively not conformed with, violated or thwarted the objectives of the owners of the resources. They are rather rewarded, even reappointed by political leaders.

B. Challenge of Fiscal Accountability.

Fiscal accountability which refers to the responsibility for public funds is lacking in Nigeria. In Nigeria, answerable public servants submit to the pursuit of personal gain in the performance of official duties. Government fails to provide basic infrastructural facilities for its citizens with its limited resources because there is no proper monetary management and accountability by public servants who are entrusted with the resources. Organizations require managerial coordination, adequate and effective monetary management to achieve set goals and objectives of that organization. To achieve results, proper allocation and utilization of resources must be ensured. All of these are absent in Nigeria because there is no check, weak legal base and lack of accountability. Accountability is the rendition of accounts of resources entrusted to officers by another person or group of persons (Asechemie, 1995:25). Most public officers are not held responsible for misappropriation of resources entrusted into their hands. Falae, (1984:15) presenting report of Abisoye panel said "The report on the Public Accounts Committee is frustrating because of the unanswered queries to embezzlers who had either left the government service or died without paying back what they corruptly acquired". Nigerian National Petroleum Corporation, NNPC does not respect its own budgets and its plans. The unwritten code in NNPC, style of management is...., loot all the lootables" (Abisoye, 1994:10). Based on these remarks, public officers are very much aware of what accountability is all about, but it is hardly rendered or totally ignored in Nigeria.

C. Challenge of Inefficient Monetary Policy

Efficient monetary management and accountability of public funds in Nigeria is affected by non- adherence to monetary policies and regulations. Valuable monetary policy, a guide to the correctness and credibility of accounting information and reports are not adhered to in Nigeria. Because of non- adherence to monetary policies, :he House of Representatives Committee on the Public Accounts, ordered the Accountant-General of the Federation to probe the N25.8 billion pension disbursement in 2002 by the Directorate of Military Pension (DMP). The expenditure · as made by the DMP without involving the Office of the Auditor-General for the Federation for proper monitoring as required by law. Independence is a vital ingredient in the account's position. Public servants especially those in the accounting system are often subject to the control of others, from within and outside the organization.

D. Challenge of Management Interference

In Nigeria, complete impartiality and independence is not totally attainable in the accounting department because it cannot be completely divorced from management. Management decisions are binding on the entire establishment and the accounting department merely reports on the financial aspect of such decisions (Adebayo, 1991).

E. Challenge of Corruption and Fraud

Externally, public parastatals are set up by government but the management teams are corrupt politicians. Certain corrupt top government functionaries see their offices merely as an opportunity to get rich quick. Fubara (2000), posits that government seems to ignore the separate legal entity status created by the laws of these enterprises and tends not to have ministerial control over the agencies. According to him, "public enterprises are politicized organs and this is obvious from the fact that most of the persons in top management positions are political instruments of the powers behind the veil". In Nigeria, public wealth is usually regarded as limitless, a national cake from which any individual in position could cut personal share at will and get away with it. This leads to very weak public against excesses of public officers which frequently includes deliberate misallocation and misappropriation of public funds. Fraud is an act or course of deception deliberately practiced to gain unlawful or unfair advantage especially where such deception is directed to the detriment of others. Incessant fraud in government and the public sector is a sad situation that has plagued Nigeria as a whole. The Senate President of Nigeria in 2000, Dr. Chuba Okadigbo and five other Senators were asked to resign from their respective duties due to offences of embezzlement and misappropriation of funds in 2000. Okadigbo was later impeached from office on that account. Persistent embezzlement and fraudulent activities in Nigeria, the administration of Chief Olusegun Obasanjo embarked on Privatization of the nations' companies, despite resistance from the general public.

F. Recruitment Style Challenge

One of the banes of public sector accounting in Nigeria is the recruitment of totally unsuitable candidates in preference to candidates of high merit. This undermines efficiency and performance. As Fubara pointed out, Directors and Chief Executives appointed by government most times have neither corporate nor professional competence accordingly. Irekponor and Tamunukubie (2010) observed that recent studies on human capital from Scandinavian countries, Buleh et al (2001), Johnson et al (2001), and Mouritsen et al (2001, 2002), continue to confirm the growing presence of intellectual capital thinking. Ordonez de Pablo (2003) on the Spanish experience supports the similar wave of thought. If an individual lacks previous experience, or has no background, he should be formally trained and tested before allowed to work. The deployment of an individual to a task for which he is most qualified is an essential factor for efficiency.

Challenge of Education

Lack of education on the part of citizens will hinder effective political awareness and consciousness, enlightenment, mobilization and activation as essential ingredients for control and management of oil revenue in Nigeria. No country can hope to place itself on the path of a stable economic progress, sustainable development and greatness without enhanced access to education.

IMPLICATIONS

More radical reforms will be necessary if Nigeria and other African economies are to increase productivity and stay globally competitive on strength of oil revenues. For successful oil revenue management in Nigeria there is the need for transparent and accountable management of revenues generated and oil companies could help stamp out corruption by publishing details of the fees, royalties and other payments made to governments. Transparent governance is necessary. Improving transparency lies in strengthening the accountability of decision-makers of host governments. This requires a strong role for civil society as well in monitoring processes and in constructive partnerships with companies and governments.

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