

Does Nigerian Content Policy Enhance Local Participation in Oil and Gas Industry towards Economic Well-being? Analysis on Niger Delta States

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Abstract

Oil and gas endowment are natural resources that typically affluence producing-country's economic development. Most of the natural resource-based economic countries such as Norway, Venezuela, and Trinidad and Tobago, Saudi Arabia, Libya etc. have comprehensive strategies and mechanisms as regulatory frameworks that are introduced in their leading-economic industries. The main objective of these frameworks are not only to maximize benefits of the revenue yielding industry which presumed to offer better economic well-being (EWB), but for also domestic economic value creation (Neff, 2005), particularly in the producing regions. Nigeria is one of the largest producers and exporters of crude oil in the World and among the top Africans that are endowed with natural gas resources. For over 50 years now, oil and gas business activities have been carries out in Nigeria and these have been generating huge amount of US dollars. For instance, revenue that generate from the exploration and production of the resources accounts for about 80 percent and 90 percent of foreign earnings, while the sector has contribute about 40 percent to gross domestic products (GDP) growth.

However, in Nigeria, the quest for better standard of living and improvement in economic wellbeing of the majority has been a serious and infuriating concern over the past years. The country has about 70 percent of its total population living under poverty line (National Bureau of Statistics, 2010), despite that the wealth of the country. Absurdly, a considerable portion of this population which is about 13.7 percent are the habitats of the oil-producing regions, South-South of Nigeria. According to UNDP report (2006), the economic wellbeing in Nigeria is sub-standardly low especially in the Niger Delta areas. Oil and gas deposits in the oil-producing states make economic and social life difficult for the habitats and they are economically poor and suffering in the midst of affluence.

To improve economic condition in Nigeria and join other oil-economic dependent countries, federal government introduced Nigerian local content policy (NLCP) in the oil and gas industry in Nigeria in 2000. It is introduced as a framework for operational regulation in the industry aiming at increasing local participation and building capacity and capability in exploration and production oil and gas by 45 percent in 2006, 70 percent and above 80 percent in 2010 and 2020, respectively, as a way of achieving economic development. However, the poor level of EWB in Nigeria, particularly in the oil-producing Niger Delta states raises a crucial question: does NLCP enhance Local Participation in Oil and Gas Industry towards Economic Well-being? Specifically, to what extent NLCP has improved EWB through NCPART in the Niger Delta states?

This paper will use time series data from nine Niger Delta states, over the period 2001–2011, and employ random-effects technique to examine the nexus between NLCP and LCPART and EWB in the states. The previous studies (see Ihua 2010; Ihua et. al., 2011; Bakare 2011; Heum et. al.,

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2003) on this debate focus much on national benefits that the resources offer and pay less attention to the oil-bearing states that precariously suffer most from adverse effects, such as depletion and degradation of environment, series of health related problems, that resulting from oil and gas activities.

We expect high significant and positive interrelationship between LCPART and NLCP, as in the case of other emerging oil-producing economies such as Venezuela. Simultaneously, if the relationship is true, LCPART should equally have positive impact on EWB improvement in the states. The results will provide helpful information to the government and stakeholders to know the extent at which NLCP has increased LCPART. It will indicate as well the level at which the people in the regions have benefited from the resources. It will also show how stringent the monitoring and supervision of policy in determining compliance by the operators in the industry. Generally, the results will enable to predict the level at which oil and gas industry could improve standard of living in the country.

Key words: oil and gas, local policies, domestic participation, revenue, economic well-being

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