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Petroleum Industry Reforms and the Challenges of Poverty Reduction in Nigeria: A Political Economy Perspective

Moses Adigizi*

Department of Political Science, Federal University, Lafia, Nasarawa State, Nigeria, mosesadigizi413@gmail.com

* Correspondence: mosesadigizi413@gmail.com

Abstract

This study examines the paradox of oil wealth and persistent poverty in Nigeria through the lens of petroleum industry reforms and political economy analysis. Despite being one of Africa's largest oil producers, Nigeria continues to grapple with widespread poverty, underdevelopment, and inequality. The study adopts a qualitative research design, relying primarily on secondary data from scholarly publications, government reports, policy documents, and institutional reviews. It explores how governance failures, institutional weaknesses, and elite capture have undermined the capacity of petroleum industry reforms to alleviate poverty. Particular attention is given to the implementation and limitations of recent policy initiatives such as the Petroleum Industry Act (PIA) of 2021. The findings reveal that reforms in the oil sector have often been symbolic and inadequately enforced, leading to the continued marginalization of oil-producing communities and ineffective redistribution of oil revenues. The study concludes that without a fundamental restructuring of oil governance frameworks to promote transparency, equity, and inclusive development, poverty will remain a persistent challenge in Nigeria. Recommendations are offered to enhance the implementation of reforms and prioritize people-centered development in the allocation of petroleum revenues.

Keywords: Governance, Petroleum, Petroleum Industry, Political Economy, Poverty.

Introduction

Nigeria is richly endowed with vast natural resources, most notably petroleum, which has been the cornerstone of its economy since the 1970s. With crude oil accounting for over 90% of export earnings and around 60% of government revenues, the petroleum sector wields significant influence over the country's fiscal and developmental trajectory (Adedeji, 2016). In light of this, successive governments have initiated a series of reforms aimed at increasing transparency, improving governance, attracting investment, and ensuring that oil revenues translate into broad-based economic development. These reforms include the deregulation of downstream operations, restructuring of state-owned enterprises such as the Nigerian National Petroleum

Corporation (NNPC), and the enactment of the Petroleum Industry Act (PIA) in 2021 (Iledare, 2022).

However, despite these reforms, Nigeria continues to grapple with widespread poverty and underdevelopment. According to the National Bureau of Statistics (2022), over 63% of Nigerians are multidimensionally poor, a condition that is paradoxical given the country's status as one of Africa's largest oil producers. This scenario has led to critical reflections on the effectiveness of petroleum industry reforms in addressing the socio-economic realities of the population. The expectation has always been that oil wealth would be leveraged to stimulate industrial growth, create employment opportunities, and enhance the standard of living. Instead, the Nigerian economy remains vulnerable to oil price shocks, riddled with corruption, and structurally dependent on imports, with little diversification into other productive sectors (Okonjo-Iweala, 2018).

The paradox of oil wealth amidst pervasive poverty presents a central dilemma in Nigeria's political economy. While the state accrues significant rents from oil, these rents have historically been mismanaged, diverted through corrupt channels, or spent inefficiently, often with little impact on human development indicators (Watts, 2008). The political economy of Nigeria's petroleum sector is characterized by elite capture, rent-seeking behavior, and weak institutional frameworks, which have collectively hindered equitable resource distribution. The dominant elite often leverage their access to oil revenues to maintain political power, rather than deploying resources toward sustainable development or poverty alleviation (Karl, 1997; Ikelegbe, 2005).

This situation forms the crux of the problem that necessitates a thorough investigation into the link between petroleum sector reforms and poverty reduction efforts in Nigeria. Although reforms have been introduced under various regimes to improve efficiency, reduce corruption, and encourage private sector participation, the impact of these efforts on poverty reduction remains questionable. For instance, the PIA promised increased revenue transparency and greater community participation through the establishment of host community development funds. Yet, concerns persist over whether such mechanisms can overcome deep-rooted institutional weaknesses and entrenched political interests (Okechukwu & Akume, 2021).

Furthermore, the centralization of oil revenues at the federal level often results in fiscal imbalances that undermine sub-national governments' ability to address poverty locally. States and local governments, which are closer to the people, remain fiscally dependent and structurally weak, thereby limiting the scope of grassroots development (Sala-i-Martin & Subramanian, 2003). This misalignment between resource control and development responsibility reinforces regional inequalities and further alienates

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communities in the oil-producing areas, who suffer environmental degradation and economic dislocation without commensurate benefits (Obi, 2010).

In essence, the paradox of oil wealth and widespread poverty in Nigeria underscores a deeper structural and governance crisis. It raises fundamental questions about the effectiveness of petroleum sector reforms in transforming oil wealth into inclusive development and poverty alleviation. Therefore, this study seeks to explore the political economy dynamics of petroleum industry reforms in Nigeria and critically assess the extent to which these reforms have addressed or exacerbated poverty in the country.

Methodology

This study adopts a qualitative research design rooted in the political economy framework to explore the nexus between petroleum industry reforms and the challenges of poverty reduction in Nigeria. The documentary method was employed as the principal data collection technique, relying exclusively on secondary sources such as books, scholarly journal publications, government policy documents, institutional reports, conference papers, and credible online materials. These sources were carefully selected to provide in-depth and historically grounded insights into the patterns, policy shifts, institutional responses, and socio-economic outcomes of petroleum sector reforms in Nigeria. The data were analyzed using qualitative content analysis, which enabled the identification of recurring themes, policy contradictions, and socio-political dynamics that shape the relationship between oil sector reforms and poverty alleviation efforts. The choice of a qualitative, documentary-based approach is justified by the nature of the study, which seeks to critically interpret existing institutional and policy frameworks, ideological underpinnings, and the structural constraints within Nigeria's oil economy, rather than test hypotheses or generate statistical generalizations. This method is particularly appropriate for understanding complex political and economic processes over time, and for capturing the nuanced effects of reform policies on poverty trends within a broader socio-political context.

Conceptual Review

Petroleum has been defined in various ways by scholars depending on the lens of analysis whether scientific, economic, or political. According to Tissot and Welte (1984), petroleum is a naturally occurring, flammable liquid consisting of a complex mixture of hydrocarbons and other organic compounds, formed primarily from the remains of ancient marine organisms buried under layers of sedimentary rock. This definition highlights the geological formation and chemical composition of petroleum. Yergin (1991) defines petroleum from a geopolitical perspective, stating that petroleum is not merely an energy resource but a strategic commodity that underpins national security,

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economic stability, and international power relations. This definition underlines the political and strategic relevance of petroleum in global affairs. Odalonu (2015) provides a more economic view, asserting that petroleum is a critical source of revenue and foreign exchange, especially for developing countries that lack a diversified economic base. He argues that in rentier states, such as Nigeria, petroleum plays a central role in shaping budgetary allocations, economic planning, and fiscal policy.

From a governance perspective, Iledare (2022) defines petroleum as a valuable but finite resource whose management requires transparent institutions, prudent fiscal regimes, and community-inclusive governance frameworks to avoid the pitfalls of the resource curse. This definition links petroleum to the necessity for institutional and policy reform. For the purpose of this study, petroleum is defined as a strategic natural resource composed of hydrocarbon compounds that serves as the mainstay of Nigeria's economy, whose management, reform, and redistribution mechanisms determine the nation’s developmental trajectory and its capacity to reduce poverty.

Petroleum Industry Reforms

Petroleum industry reforms refer to systematic policy, legal, institutional, and operational changes aimed at improving the efficiency, transparency, equity, and sustainability of the petroleum sector. These reforms often target key aspects such as licensing procedures, revenue management, regulatory oversight, community relations, and environmental sustainability (Eifert, Gelb & Tallroth, 2003). In Nigeria, petroleum industry reforms have been a recurring policy agenda driven by the need to address chronic inefficiencies, widespread corruption, environmental degradation, and inequitable distribution of oil revenues. These reforms include the liberalization of downstream operations, the commercialization and unbundling of the Nigerian National Petroleum Corporation (NNPC), the establishment of regulatory agencies like the Nigerian Upstream Petroleum Regulatory Commission (NUPRC), and most notably, the enactment of the Petroleum Industry Act (PIA) in 2021 (Iledare, 2022).

At the heart of these reforms is the desire to shift from a state-dominated, opaque petroleum regime to a more competitive, market-oriented, and accountable system. Reforms aim to resolve structural bottlenecks, such as dual pricing systems, fuel subsidies, and weak environmental regulations, all of which have historically undermined sectoral efficiency and public trust (Sala-i-Martin & Subramanian, 2003). Moreover, petroleum industry reforms are conceptualized as tools for poverty reduction. In theory, improved governance and redistribution of oil wealth should facilitate the funding of social services, infrastructure development, and human capital investment. However, in practice, the linkage between reforms and poverty reduction is often disrupted by rent-seeking behavior, political patronage, and institutional weaknesses (Karl, 1997; Watts, 2008).

The reforms also introduce the concept of "host community development," particularly in the PIA, which mandates oil companies to contribute to the Host Communities Development Trust Fund. This mechanism is intended to address the historical neglect and marginalization of oil-producing areas by involving communities directly in decision-making and ensuring that a percentage of oil revenues is reinvested locally (Okechukwu & Akume, 2021). Yet, critics argue that without strong oversight and genuine community participation, such reforms risk becoming symbolic gestures rather than transformative policies. Additionally, petroleum industry reforms must be situated within the broader framework of Nigeria's political economy. As a rentier state, Nigeria's political elites have historically relied on oil rents to sustain their power, often at the expense of accountability and long-term planning (Ikelegbe, 2005). Thus, reforms are not merely technical adjustments; they are political acts that challenge existing power structures and vested interests.

In this context, successful reforms require more than just policy changes they demand a transformation in the governance culture, institutional behavior, and societal expectations. The conceptualization of petroleum industry reforms, therefore, must encompass not only the legal and economic dimensions but also the socio-political dynamics that influence policy implementation and outcomes (Obi, 2010). petroleum industry reforms are complex and multifaceted, shaped by a combination of technical goals and political realities. While they hold the promise of increased efficiency and inclusive development, their effectiveness in reducing poverty and fostering equitable growth depends on how well they are implemented within a transparent, accountable, and participatory governance framework. This study therefore adopts a political economy lens to critically interrogate the nature, content, and impact of petroleum industry reforms in Nigeria, particularly in relation to poverty alleviation.

Poverty and Poverty Reduction

Poverty is one of the most pervasive and persistent global challenges, affecting billions of people and hindering sustainable development, particularly in developing countries such as Nigeria. It transcends mere income deprivation, encompassing a range of interrelated factors such as lack of access to basic services, insecurity, and social exclusion. Sen (1999), in his groundbreaking work on development as freedom, defines poverty as the deprivation of basic capabilities rather than merely low income. According to him, poverty should be assessed in terms of the opportunities people have to live the kind of life they value. This perspective shifts the focus from material wealth to human development and well-being. Townsend (1979) defines poverty as the inability to obtain

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the resources necessary for a minimum acceptable way of life in the society to which one belongs. He emphasizes relative poverty and social exclusion, highlighting that poverty is not only about lack of income but also about falling below the standards that are deemed acceptable in a given society.

World Bank (2001) offers a more multidimensional understanding, describing poverty as a pronounced deprivation in well-being, which includes lack of access to basic services such as education, healthcare, potable water, and shelter, as well as insecurity, powerlessness, and vulnerability to economic and environmental shocks. According to Alkire and Foster (2011), poverty is a multidimensional phenomenon best understood through a combination of indicators that capture education, health, living standards, and access to social amenities. Their Multidimensional Poverty Index (MPI) is widely used to measure not just who is poor, but how poor they are, and in what dimensions. For the purpose of this study, poverty is defined as a multidimensional condition characterized by the inability of individuals or households to access sufficient income, basic services, and opportunities needed for a decent and dignified life, often exacerbated by structural inequalities and governance failures. This definition encompasses economic, social, and political dimensions, providing a holistic framework for analyzing the challenges of poverty in the context of Nigeria.

Poverty reduction refers to the set of strategies and policies aimed at improving the living conditions of the poor by enhancing their access to income, education, health, and social inclusion (World Bank, 2015). These strategies can be either short-term, such as cash transfers and food subsidies, or long-term, such as economic diversification, educational investments, and institutional reforms. The effectiveness of poverty reduction policies in Nigeria has been limited due to the structural nature of poverty in the country. High unemployment rates, regional disparities, poor infrastructure, and weak governance systems undermine the impact of poverty alleviation programmes. Moreover, many of the anti-poverty strategies have been donor-driven, poorly coordinated, or politicized, thereby failing to address the root causes of poverty (Obadan, 2001). From a political economy perspective, poverty is not simply an outcome of economic deprivation but is deeply embedded in the distribution of power and resources. Elites often use state structures and access to oil rents to maintain dominance, which perpetuates inequality and excludes the poor from decision-making and economic opportunities (Watts, 2008). As a result, poverty reduction in Nigeria requires not only technical solutions but also political will and institutional reform.

Furthermore, the intersection between poverty and governance is critical. Poor governance, especially in the management of petroleum resources, undermines inclusive development and reinforces poverty cycles. Effective poverty reduction must therefore involve promoting transparency, accountability, participatory governance, and equitable resource allocation. The recent Petroleum Industry Act (PIA), for instance, aims to create mechanisms such as the Host Communities Development Trust Fund to ensure that oil-producing communities receive a fair share of revenues. However, unless these mechanisms are transparently implemented and genuinely inclusive, they risk reinforcing existing inequalities rather than alleviating poverty (Okechukwu & Akume, 2021). poverty is a multifaceted and dynamic challenge that cannot be addressed through income-based approaches alone. It requires a multidimensional understanding and a comprehensive policy framework that includes economic, social, and institutional reforms. In Nigeria, where poverty persists amid abundant oil wealth, poverty reduction efforts must confront the structural and governance challenges that hinder equitable development. This study, therefore, adopts a political economy framework to critically examine the interplay between petroleum industry reforms and poverty reduction efforts in Nigeria.

Political Economy

Political economy is a critical concept used to understand the interaction between politics and economics in shaping development outcomes, public policies, and institutional structures. It provides a comprehensive analytical framework for explaining how economic interests, power relations, and governance mechanisms influence the allocation of resources and the development trajectory of societies. Gilpin (2001) defines political economy as the study of how politics and economics interact in different societies and how this interaction shapes the distribution of power and wealth. According to him, political economy examines how state policies affect economic performance and how economic structures influence political choices and behaviors.

O'Brien and Williams (2016) describe political economy as an approach that explores the mutual interaction between political and economic processes, particularly the ways in which economic interests influence political institutions and vice versa. This view highlights the inseparability of political power and economic control in shaping societal outcomes. Susan Strange (1994), a leading figure in international political economy, defines political economy as the study of the sources of power and wealth in society, and how these are distributed and contested through institutions and structures. She emphasizes the role of both formal (e.g., governments, laws) and informal (e.g., markets, customs) institutions in shaping political-economic outcomes. Leftwich (2000) offers a governance-oriented definition, stating that political economy is the study of the political determinants of economic development, with a particular focus on the role of institutions, power relations, and decision-making processes in influencing policy and outcomes. His approach connects political institutions and leadership dynamics directly with economic performance and development.

For the purpose of this study, political economy is defined as the analytical framework that examines how political power, economic interests, and institutional arrangements interact to shape resource allocation, public policy outcomes, and development trajectories within a given society. This definition emphasizes the interconnectedness of economic and political processes, especially in resource-rich but poverty-stricken countries like Nigeria. The political economy framework provides a useful lens for understanding why some countries with abundant natural resources experience underdevelopment and widespread poverty. It argues that development outcomes are not merely the result of technical policy choices but are shaped by deeper political and economic interests, institutional capacities, and power struggles among various actors.

Political economy traces its roots to classical economists such as Adam Smith, David Ricardo, and Karl Marx, who emphasized the role of economic relations and class structures in shaping social and political dynamics. In the modern context, political economy has evolved to include a broader range of analyses, including the role of institutions (North, 1990), governance, elite coalitions, and global economic structures. In developing countries like Nigeria, the political economy approach is particularly relevant for understanding the contradictions inherent in the management of petroleum resources. Despite being one of the largest oil producers in Africa, Nigeria suffers from high levels of poverty, inequality, and poor governance. The failure of petroleum wealth to translate into broad-based development can be attributed to the capture of state institutions by political and economic elites who prioritize personal enrichment over public welfare (Watts, 2008; Ikelegbe, 2005).

Political economy also sheds light on the structural factors that hinder reform implementation. For instance, petroleum industry reforms, such as the Petroleum Industry Act (PIA) of 2021, are often delayed or diluted due to the vested interests of powerful actors who benefit from the status quo. These actors use their control over state institutions and oil rents to maintain their dominance, thereby perpetuating inefficiencies, corruption, and poverty (Karl, 1997; Obi, 2010). Moreover, political economy emphasizes the importance of institutions—formal and informal rules that govern behavior. Weak institutions in Nigeria, characterized by corruption, lack of transparency, and limited accountability, undermine the effective implementation of development policies. The mismanagement of oil revenues, opaque contract awards, and exclusion of local communities from decision-making processes reflect a distorted political economy where elite interests override national development goals (Omeje, 2006).

From this perspective, poverty in Nigeria is not merely a lack of income or services but a consequence of a political economy that favors a narrow group at the expense of the majority. Addressing poverty therefore requires not just economic

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interventions but also political and institutional reforms that promote inclusive governance, equitable resource distribution, and citizen participation. political economy is a powerful conceptual tool for analyzing the root causes of underdevelopment, especially in resource-rich countries. It goes beyond technical policy analysis to interrogate the deeper political and economic dynamics that shape outcomes. For this study, political economy offers a critical framework to examine how petroleum industry reforms in Nigeria intersect with governance structures and power relations to either exacerbate or alleviate poverty.

Theoretical Framework: Political Economy Theory

The Political Economy Theory is a multidisciplinary framework that examines how political institutions, the political environment, and economic systems influence each other. It focuses on the interdependence between politics and economics and how power and resources are distributed in society. This theory is especially useful in understanding the complexities of policy formulation, resource management, and socio-economic outcomes in developing countries like Nigeria, particularly in relation to the petroleum industry and poverty reduction efforts. The origins of political economy can be traced to classical thinkers such as Adam Smith, David Ricardo, and Karl Marx, who emphasized different dimensions of the interplay between economic production and political governance. In modern scholarship, Douglass North advanced the theory by focusing on institutional economics and how institutions shape economic performance. Similarly, Susan Strange emphasized the global dimensions of political economy by exploring how markets and state power interact in shaping outcomes. Terry Lynn Karl applied political economy to resource-rich countries, illustrating how oil wealth can foster authoritarianism, corruption, and underdevelopment a condition she termed the "paradox of plenty" (Karl, 1997).

Basic Assumptions of the Theory

Political Economy Theory rests on several foundational assumptions:

1. Interdependence of Politics and Economics: Economic decisions are influenced by political institutions, and political outcomes are shaped by economic interests.

2. Power and Resource Distribution: Economic resources are unequally distributed, and this inequality is maintained through institutional and political mechanisms.

3. Role of Institutions: Institutions (formal and informal) mediate the interaction between political actors and economic outcomes.

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4. Rational and Self-Interested Actors: Political and economic actors pursue self-interest, which often leads to rent-seeking, patronage, and corruption, especially in weak institutional environments.

5. Path Dependency: Historical decisions and institutional legacies shape current political and economic outcomes.

Political Economy Theory provides a comprehensive framework to explain the paradox of oil wealth and persistent poverty in Nigeria. Although the country has earned billions of dollars from petroleum exports, the benefits have not translated into improved living conditions for the majority of Nigerians. This disconnect can be explained by the theory's emphasis on how political elites manipulate economic policies to serve their interests, often at the expense of broader developmental goals (Obi, 2010; Watts, 2008). In the case of petroleum industry reforms, political economy theory helps explain the persistent challenges in implementing transparent, inclusive, and pro-poor policies. The dominance of elite actors in the oil sector, coupled with weak institutional oversight, has resulted in rent-seeking behavior, corruption, and policy inertia. As North (1990) argues, ineffective institutions create an environment where political and economic elites exploit national resources for personal gain rather than national development.

Furthermore, the theory draws attention to how structural and institutional factors undermine poverty reduction strategies. Despite initiatives like the Petroleum Industry Act (PIA) of 2021, implementation is often delayed or compromised due to political interference and the vested interests of those who benefit from the status quo. The failure to direct oil revenues toward critical sectors like health, education, and infrastructure reveals a political economy where power and resources are captured by a narrow elite (Ikelegbe, 2005; Omeje, 2006). The theory also explains how the absence of inclusive governance leads to policy failures. For instance, communities in oil-producing regions suffer environmental degradation and economic marginalization, yet receive little benefit from oil wealth. This fosters discontent and undermines the legitimacy of state institutions issues that are central to Nigeria’s developmental crisis.

Political economy theory emphasizes that economic outcomes are not merely the result of market forces or technical decisions but are deeply embedded in political structures, power relations, and the actions of state and non-state actors. In Nigerian, this theory is particularly relevant because the management of oil revenues and the direction of sectoral reforms have been consistently influenced by the interests of the political elite rather than the broader goals of national development or poverty reduction. Over the years, Nigeria's ruling elite has played a central role in the appropriation and distribution of oil wealth, often through patronage networks, opaque institutional arrangements, and

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weak accountability mechanisms, which have undermined the objectives of reforms (Watts, 2004; Ikelegbe, 2005).

The political economy theory helps dissect how these entrenched interests shape policy choices and reform outcomes, revealing that many reform initiatives such as deregulation, privatization, or subsidy removal are often selectively implemented to protect elite interests while presenting a façade of structural change. For example, while reforms under initiatives like the Petroleum Industry Act (PIA) were framed as efforts to promote transparency and efficiency, their actual implementation reflects significant influence from dominant political actors and corporate interests, thereby limiting their effectiveness in addressing poverty or redistributing oil wealth equitably (Obi, 2010; Sala-i-Martin & Subramanian, 2003). The theory also draws attention to the institutional consequences of these power struggles: regulatory capture, weak oversight bodies, and fragmented governance structures persist because they serve the interests of those who benefit from the status quo. Thus, political economy theory provides a compelling framework for analyzing why poverty remains widespread in Nigeria despite decades of oil wealth and reform attempts. It shows that the problem lies not only in policy design but in the political and institutional context that shapes reform trajectories and determines who gains or losses from them (Okonta & Douglas, 2003; Karl, 1997).

Despite its explanatory power, Political Economy Theory is not without limitations. One major critique is its tendency toward determinism, where outcomes are seen as inevitable products of elite dominance and institutional failure. This perspective may downplay the agency of civil society, reformist actors, and international organizations in promoting change. Additionally, the theory often adopts a macro-level focus, which may overlook local dynamics and variations in how power and resources are contested or negotiated at sub-national levels. Despite criticisms, the theory is highly relevant to the study of petroleum industry reforms and poverty reduction in Nigeria. It provides the conceptual tools to examine how political and economic interests shape policy outcomes, particularly in the oil sector. The theory allows for a deeper analysis of the institutional and structural barriers to reform, including corruption, elite capture, weak governance, and the marginalization of poor communities. Applying this theory, the study identifies not only the technical shortcomings of reforms but also the political and institutional dynamics that hinder or enable effective poverty reduction. It offers a lens through which the contradictions between Nigeria's oil wealth and its poverty indicators can be critically assessed, and it underscores the need for governance reforms, transparency, and inclusive policy-making to break the cycle of poverty in a resource-rich nation.

Omeje (2006) used a political economy framework to investigate the structural link between oil exploitation, elite interests, and socio-economic inequality. Drawing from field interviews, media reports, and policy documents, he argued that oil revenue in Nigeria is largely captured by political and economic elites who operate a patron-client system. The masses, especially in oil-rich areas, remain poor and voiceless. He concluded that unless reforms break the cycle of elite domination and include mechanisms for local participation, poverty and conflict will persist. His findings emphasize the central theme of this study: that the failure of petroleum industry reforms to reduce poverty is largely due to elite capture and institutional failure.

The empirical literature reveals several critical gaps. First, there is a scarcity of research connecting specific petroleum reforms such as the PIA 2021 to poverty outcomes at the community level. Second, most studies focus either on macroeconomic trends or local experiences but rarely combine both perspectives. Third, while many studies point to institutional weakness, few offer an integrated framework that connects political economy structures, reform implementation, and poverty dynamics. This study seeks to bridge these gaps by using a political economy lens to critically examine how petroleum reforms have impacted poverty reduction efforts in Nigeria, combining both national and grassroots perspectives.

Oil- Poverty Nexus in Nigeria

The relationship between oil governance and poverty has become a central theme in global political economy and development studies, particularly in resource-rich developing nations. The paradox that natural resource abundance especially petroleum often correlates with underdevelopment and persistent poverty has been observed in many regions of the world. Effective oil governance, which entails transparent, accountable, and equitable management of oil revenues and regulatory institutions, is considered a crucial determinant of whether oil wealth translates into national prosperity or deepens poverty and inequality. Globally, countries rich in petroleum resources are often caught in what is widely known as the "resource curse" or "paradox of plenty," a situation where resource abundance leads to poor economic performance, weak institutions, and widespread poverty (Auty, 1993; Karl, 1997). For example, Venezuela, despite having the world's largest proven oil reserves, has struggled with extreme poverty, inflation, and institutional collapse due to decades of poor oil governance and politicized management of petroleum revenues. In contrast, countries like Norway and Canada have demonstrated that good governance, institutional transparency, and effective regulation of oil revenues can promote inclusive development and poverty reduction (Mehlum, Moene & Torvik, 2006). These global disparities reveal that the presence of oil resources alone does not determine a country's development trajectory; rather, the quality of governance and institutional arrangements plays a decisive role.

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Africa, home to several oil-rich nations, presents a complex portrait of oil governance and its impact on poverty. Countries like Angola, Sudan, and Equatorial Guinea earn billions of dollars annually from crude oil exports yet remain plagued by high poverty rates, unemployment, and socio-political instability. According to the African Development Bank (AfDB, 2020), poor governance structures, corruption, and weak institutions have prevented many African countries from utilizing oil revenues to improve social welfare and reduce poverty. In Angola, for instance, decades of authoritarian rule and non-transparent oil sector management have led to vast income disparities, with elites benefiting while millions live in poverty. Similarly, Chad, despite the World Bank-supported oil pipeline project in the early 2000s, failed to translate oil revenues into poverty alleviation due to fiscal mismanagement and elite capture (Gary & Reisch, 2005). The African experience underscores the critical need for institutional reforms, accountability mechanisms, and citizen participation in the governance of natural resources. Without these, oil revenues tend to entrench existing power structures and fuel inequality, rather than serve as tools for inclusive development.

In West Africa, the linkage between oil governance and poverty remains particularly salient. Nigeria, Ghana, and more recently Senegal and Mauritania, are examples of oil-producing countries with varying governance outcomes. Ghana, after discovering oil in 2007, implemented the Petroleum Revenue Management Act (PRMA) in 2011, which includes provisions for transparency, public accountability, and savings for future generations. Although challenges remain, Ghana's approach has been praised for reducing discretionary spending and increasing public oversight (Gyimah-Boadi & Prempeh, 2012).

By contrast, Nigeria the region's largest oil producer provides a stark example of how poor oil governance can exacerbate poverty. Despite earning over $600 billion from oil exports since the 1960s, more than 40% of Nigerians live below the national poverty line, and the country ranks poorly in human development indices (UNDP, 2023). This contradiction between immense oil wealth and pervasive poverty places Nigeria at the center of the discourse on oil governance in West Africa. Nigeria's experience with oil governance and poverty is perhaps one of the most complex and instructive in the world. The discovery of oil in commercial quantities in Oloibiri in 1956 and the subsequent boom in the 1970s shifted the country's economic focus from agriculture to petroleum, with oil accounting for over 90% of export earnings and more than 70% of government revenue (NEITI, 2022). However, this dependence on oil has not translated into broad-based development. Instead, oil has become a source of rent-seeking, corruption, environmental degradation, and socio-economic exclusion.

Several factors account for Nigeria's failure to translate oil wealth into poverty reduction. First, the institutional framework governing the oil sector has historically been weak and opaque. Government-owned corporations like the Nigerian National Petroleum Corporation (NNPC), now transformed into a limited liability company under the Petroleum Industry Act (PIA) 2021, have been plagued by allegations of corruption and mismanagement (Transparency International, 2020). This has led to massive revenue losses and misappropriation of funds that could have been used to invest in education, healthcare, infrastructure, and job creation. Second, oil-producing communities, particularly in the Niger Delta, have suffered disproportionately from the environmental and social consequences of oil exploration. Oil spills, gas flaring, and deforestation have destroyed farmlands and fishing waters, exacerbating poverty and unemployment in these communities. Yet, these regions receive minimal infrastructural investment and development benefits, leading to agitation, militancy, and social unrest (Ibaba, 2011). This spatial inequality reinforces the perception that oil governance in Nigeria is not only inefficient but also unjust.

Third, the political economy of oil in Nigeria has entrenched a patronage-based system where elites capture state resources for personal and political gain. According to Omeje (2006), oil wealth has been used as a tool for political control, with rents distributed to maintain loyalty among elite networks rather than to promote development. This elite capture of oil rents diverts resources from productive use, deepening poverty and underdevelopment. The introduction of the Petroleum Industry Act (PIA) in 2021 was a significant attempt to reform oil governance by introducing a more transparent fiscal framework, restructuring NNPC, and creating the Host Communities Development Trust Fund. However, critics argue that while the PIA represents progress, its implementation has been slow and its provisions still favor federal control at the expense of local communities (BudgIT, 2022). Without effective implementation and strong oversight, the law may fall short of its promise to bridge the gap between oil wealth and poverty reduction.

Despite Nigeria's immense oil wealth, the country continues to grapple with widespread poverty, underdevelopment, and inequality a contradiction that has come to be known as the oil-poverty paradox or more broadly, the resource curse. This paradox refers to the phenomenon where countries rich in natural resources, particularly oil, often experience slower economic growth, weaker institutions, and deeper poverty than their resource-poor counterparts. Nigeria exemplifies this dilemma: since the discovery of oil in commercial quantities in the 1950s and the subsequent oil boom of the 1970s, the country has earned hundreds of billions of dollars in oil revenue. Yet, poverty rates have remained stubbornly high. According to the National Bureau of Statistics (2023), over 63% of Nigerians approximately 133 million people are classified as multidimensionally poor, lacking access to basic necessities such as healthcare, education, and clean water.

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This reality underscores the failure of oil revenue to catalyze broad-based human development.

One of the core reasons for this failure lies in the mismanagement of oil wealth and the distortion of governance structures. Oil revenue has created a rentier state dynamic, where the government relies heavily on oil rents rather than productive taxation, reducing accountability to citizens and encouraging corruption and rent-seeking behavior. This has severely undermined the effectiveness of poverty alleviation programmes. For instance, numerous oil-funded initiatives such as the National Poverty Eradication Programme (NAPEP), the Subsidy Reinvestment and Empowerment Programme (SURE-P), and more recently, the Social Investment Programmes (SIP), were launched with promises to reduce poverty and create jobs. However, most of these programmes have suffered from poor planning, weak implementation, and elite capture. Reports from the World Bank (2022) and independent watchdogs like BudgIT have consistently highlighted how these programmes were marred by opacity, political interference, and limited impact at the grassroots level.

The allocation of oil-derived resources across Nigeria's federal system has exacerbated regional disparities, particularly between oil-producing and non-oil-producing states. While the principle of derivation in revenue sharing (currently at 13%) is designed to compensate oil-producing areas for environmental degradation and economic loss, in practice, these regions often remain some of the most impoverished and underdeveloped in the country. For example, despite contributing significantly to national revenue, states like Bayelsa and Delta still suffer from high youth unemployment, poor health outcomes, and environmental degradation due to oil spills and gas flaring (UNDP, 2021; Amnesty International, 2019). Conversely, non-oil-producing states sometimes receive disproportionate federal allocations through political bargaining and population-based revenue formulas, further fueling resentment and tension in the Niger Delta. The mismatch between Nigeria's oil wealth and its development outcomes is also evident when compared to resource-rich countries that have managed their resources better. Countries like Norway and Botswana have invested their resource revenues in sovereign wealth funds, infrastructure, education, and institutional strengthening leading to more inclusive development. Nigeria's Excess Crude Account (ECA), initially established to stabilize the economy against oil price shocks, has been largely depleted without clear accounting or corresponding development benefits (NEITI, 2022). This highlights not just a failure of resource allocation but a deeper institutional crisis rooted in weak governance, elite capture, and a lack of long-term vision. In essence, the oil-poverty nexus in Nigeria reflects the complex interplay of rentier politics, institutional weaknesses, and socio-political inequality. Despite the country's natural endowments, meaningful poverty reduction remains elusive because oil wealth has primarily served

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elite interests rather than being channeled into broad-based social and economic transformation.

Petroleum Sector Reforms and the Poverty Question

The petroleum sector reforms in Nigeria particularly the enactment of the Petroleum Industry Act (PIA) 2021, the removal of fuel subsidies, and the broader deregulation agenda have been framed as major policy steps toward addressing systemic inefficiencies in the oil sector and promoting inclusive development. However, a critical assessment reveals a complex and often contradictory relationship between these reforms and poverty reduction efforts. While these reforms have been promoted as tools to improve transparency, accountability, and attract investment, their real-world impact on poverty alleviation remains limited, and in some instances, has deepened existing inequalities.

The Petroleum Industry Act (PIA) was introduced with the promise of restructuring the oil and gas sector to ensure greater accountability, streamline governance, and promote host community development. A key component of the PIA is the creation of the Host Communities Development Trust Fund, which mandates oil companies to contribute 3% of their operational expenses toward the development of oil-producing communities. However, while this is a step in the right direction, the implementation of the fund has been slow, poorly coordinated, and fraught with mistrust among local stakeholders. Furthermore, critics argue that 3% is insufficient to compensate for decades of environmental degradation and underdevelopment in oil-producing regions (BudgIT, 2022; NEITI, 2023). Although the PIA has introduced some institutional reforms, concerns remain about whether it can fundamentally alter the entrenched patterns of elite control over oil wealth. For instance, while the Nigerian National Petroleum Corporation (NNPC) was restructured into a commercial entity (NNPC Ltd), transparency in its financial operations remains limited, and allegations of opaque dealings persist (Transparency International, 2022).

The removal of fuel subsidies, especially under President Bola Tinubu's administration in 2023, was justified as a move to free up public funds for investment in infrastructure, health, and education. However, the immediate impact on poor and low-income households has been devastating. The price of petrol more than tripled within weeks, triggering inflationary pressures across all sectors, including transport, food, and electricity. According to the National Bureau of Statistics (2024), the inflation rate surged past 33%, while food inflation exceeded 40%, pushing millions of Nigerians below the poverty line. Although the government proposed palliative measures such as conditional cash transfers and wage adjustments, these have not been sufficient or sustainable in cushioning the impact on vulnerable groups. Thus, while subsidy removal may improve fiscal discipline in the long term, its short-term effect has been regressive exacerbating poverty rather than alleviating it (World Bank, 2023).

In terms of deregulation, the liberalization of the downstream sector was intended to stimulate competition, attract investment, and ensure market-driven pricing. Yet, the absence of strong regulatory oversight and infrastructure has limited the benefits of this policy. Deregulation has not significantly attracted private refineries or reduced Nigeria's dependency on imported petroleum products, thereby sustaining the pass-through of global oil shocks to local markets. Additionally, deregulation has not translated into substantial investment in pro-poor sectors like health, education, and rural infrastructure. Nigeria continues to rank among the lowest in human development indicators globally, with inadequate public investment in basic services. For example, the 2024 federal budget allocated less than 7% to health and just around 8% to education figures far below the recommended thresholds by WHO and UNESCO (UNDP, 2024).

In terms of successes, some elements of the PIA like clearer legal frameworks and efforts to reposition NNPC as a commercially viable entity may yield longer-term benefits if fully and transparently implemented. However, the failure lies primarily in execution, timing, and absence of social protection mechanisms. Reforms were introduced in a context of weak institutions, high inflation, and public distrust. As a result, the intended benefits of greater efficiency and wealth redistribution have not materialized in ways that meaningfully impact the poor. The poorest Nigerians continue to bear the brunt of rising living costs without seeing proportional improvements in services or infrastructure. In practice, petroleum sector reforms in Nigeria have not yet delivered on their promises of poverty reduction. While the reform agenda may be economically rational, its implementation has largely ignored the socio-political realities of poverty, inequality, and exclusion. Unless the government adopts a more people-centered reform strategy one that links oil sector efficiency to tangible social investment and institutional accountability poverty will persist, and the promise of oil wealth will remain unfulfilled for the majority of Nigerians.

Conclusion

This study set out to examine the link between petroleum industry reforms and the persistent challenges of poverty in Nigeria from a political economy perspective. The review of literature and empirical evidence confirms the existence of a clear paradox: a country endowed with abundant oil resources remains one of the poorest in the world in terms of human development indicators. It was established that the root cause of this disconnect lies in the governance of the oil sector, which has been characterized by opacity, corruption, and the marginalization of local communities. While reforms such as the Petroleum Industry Act represent a step in the right direction, their success depends

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on robust implementation, public accountability, and the redirection of oil revenues toward poverty reduction initiatives.

The research also revealed that reforms in the petroleum sector, particularly the Petroleum Industry Act (PIA) of 2021, though well-intentioned, have had limited impact on poverty alleviation due to slow implementation and elite capture. Furthermore, the study highlighted that oil wealth has been used more as a tool of political patronage than as a means to stimulate inclusive economic development. The findings also confirm that the environmental degradation caused by oil exploration has contributed to socio-economic disempowerment and underdevelopment in the Niger Delta and other oil-bearing regions. The study concludes that without a fundamental reordering of the political economy of oil one that prioritizes equity, transparency, and development the goals of poverty reduction in Nigeria will remain elusive.

Recommendations

1. Government should ensure that the provisions of the PIA, especially those related to transparency, community development, and environmental protection, are fully enforced and monitored.
2. Oil revenue management must be subjected to rigorous public audits, and civil society organizations should be empowered to monitor petroleum sector expenditures.
3. A significant portion of oil revenues should be allocated to education, healthcare, rural development, and job creation, particularly in oil-producing communities.
4. Local communities must be actively involved in decision-making processes related to oil extraction, revenue distribution, and development planning.

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