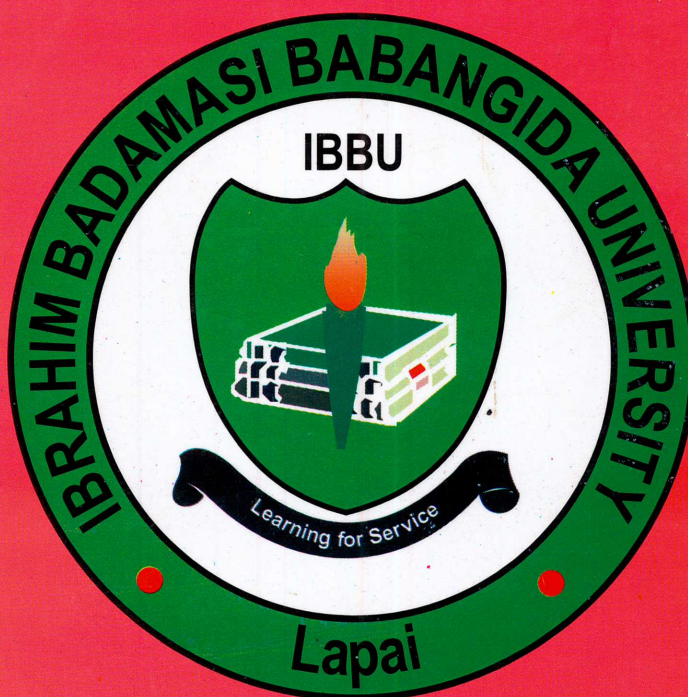


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## AN EVALUATION OF THE EFFECTS OF ENVIRONMENTAL ACCOUNTING FACTORS ON THE LIFE OF THE INHABITANTS OF THE OIL PRODUCING COMMUNITIES IN NIGERIA

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### **Abstract**

*The Study evaluates some identified environmental accounting factors inherent in the operations of oil companies in Nigeria with a view to determining effects of these factors on the life of the inhabitants of the oil producing communities. Primary and secondary data are used for the Study through oral interview approach, questionnaire administration and from relevant official books. Data is analysed by descriptive statistical technique such as means and percentages. Inferential statistics, the Z-score, is employed to evaluate the effects of some environmental accounting factors hitherto identified from the literature before and after the commencement of the oil companies operations in the affected communities. Results show that environmental factors have tremendous negative effect on the economy as well as the health of the inhabitants of the oil producing communities. The Study, therefore, advocates for the incorporation into the oil company's annual reports, environmental disclosures and apportion appropriate cost to each environmental factor in order to enhance better environmental management practices as well as promote socio-economic development of these communities.*

**Keywords:** Accounting, Environment, Development, Communities and Pollution.

### **Introduction**

Oil exploration and government activities may have reduced the quality and usefulness of life through gas flaring, industrial pollution, oil spillage, deforestation and other related problems.

However, huge amount of money is derived daily by the country from sales of crude oil and its by-products. Therefore, one would generally assume that this money should have significant impact at least on the development of oil producing communities. This should be so because it is on record that the oil and gas industry remains the major income earner (about 90% of the total revenue) for the nation (National Economic Empowerment and Development strategy (NEED, 2004: Shell, 2000).

Paradoxically, the oil export earnings are about \$300 billion since the mid 1970's yet Nigeria is said to have one of the weakest economies in the world (NEEDS, 2004). Decades of development, Ogbeifun (2007) argues, have been



lost apparently due to slow economic growth, inadequate development plan, and corrupt practices in high places. Nigeria had a Gross Domestic Product (GDP) of about \$45 billion in 2001. Again, her per capital income of about \$300 a year reveals that the country remains one of the poorest in the world. In spite of the country's natural endowments such as vast mangrove forest, wet and fertile lands. However, serious threats from exploitation of timber, oil spills, gas flaring and the impacts of increasing costal urbanisation appear to be posing serious challenges to Nigeria (Eeds, 2004).

The haste to develop did not incorporate pollution control and waste management into environmental management plan. Even the environmental laws regarding pollution and waste management seem to be inadequate or where they exist remain to a large extent unenforceable. It is no wonder then, that Ogbeifun (2007) advocates that urgent steps be taken, so that this present generation does not bequeath to her future generation, a down stream sector that is import dependent and dollar driven.

Meanwhile, Otite (2003) observes that oil producing communities continue to dwell in abject penury, despite the fact that the bulk of the nation's wealth is obtained from there. Another major hindrance to development or empowerment of the oil producing communities as contained in NEEDS document of 2004 is economic management of oil proceeds by corrupt Nigerian governments.

Besides, other contending issues that are still being debated are the effects of some environmental factors (which are largely unaccounted for) but have tremendous effect on the economic development of the inhabitants of the oil producing regions in the Niger-Delta area. Hence, questions such as what are these environmental accounting factors that should be accounted for in the oil and gas industry, What are the effects of these environmental factors on the economic development of the inhabitants or communities of the oil producing states, now dominate most academic discourse.

To adequately address these questions, the following research objectives are pursued, namely, to identify the environmental factors that should be accounted for in the nation's oil and gas industry to evaluate the effects of these environmental factors on the life of the inhabitants of the oil producing regions; and to proffer solutions for future reforms in order to enhance developmental efforts in the oil producing communities of the Niger Delta region.

The second section of this paper reviews some related but relevant literature while sections three and four dwell on the method used for the Study as well as discussion of findings respectively. Section five summarises concludes and recommends measures to be adopted to enhance economic development in the oil producing communities of Niger Delta region.



### **Literature Review**

Most developed countries of the West usually regard environmental function as a sink for wastes and to a large extent ignore it as a source of materials and energy. Such countries arguably derive most of their prosperity from value added in secondary and tertiary activities while importing their primary commodities from developing countries (El Serafy, 1995). This may be so because over the years they had depleted their natural resources during their early years of development. Now, their main concern is how to deal with acid rain, pollutants of various forms in rivers and lakes, land filled with solid waste, nuclear residues, toxic chemicals, particulates and so on. It has also been discovered that people in the developed countries are willing to pay more for products that are environmental friendly rather than low cost products that are usually associated with the air, water and land pollution.

Myers (1989) observes that the quest for development has led to massive destruction and degradation of the environment and natural capital. This, of course, is a threat to sustainable development. Environment and development are closely intertwined. Therefore, one should not be ignored to the detriment of the other. As Omotosho (2006) opines, a stable macro economic environment is necessary if Nigeria is to be relevant and effectively compete in the global economy. Regrettably, despite Nigeria's rich and diverse natural resources, efforts have not been directed at improving the livelihood, and well-being of future generations. Again one of the greatest obstacles to progress appears to be the boom and burst mode of economic management, encouraged by oil dominance in the economy.

Some of the environmental problems arising from oil extraction include pollution, gas flaring, oil spillage and soil erosion, just to mention but a few. Pollution poses a serious threat to man, flora and fauna's survival (Odu, 1977; Nwankwo and Irechukwu, 1981). Gas flaring has deleterious effects in drastically changing environmental conditions. It causes excessive heat and light, scorching of the surrounding soil, disrupting animals' sleeping pattern, and acid rain which depopulates marine and aquatic organisms (Nwankwo and Irechukwu, 1981; Falola, 1985). Oil spillage is one of the major challenges facing the oil industry with its consequential environmental pollution (Owolabi 2006). Spills may occur as a result of rupture and diminished integrity and aging process of the pipes or through sabotage (Ogbeifun 2007). Dangerous hydrocarbons are emitted into the air whenever there is oil spillage or leakages. This is dangerous to man and other living organisms. The effects of petroleum and crude oil pollution on man, plants and microbial population cannot be over-emphasised. Various effects of different hydrocarbons on health have been articulated and documented. They



include benzene which on chronic exposure may cause Leukemia and birth defects; ethylbenzene which may cause dizziness, slower reflexes, loss of consciousness and death; Zylene may cause damages to a developing foetus, liver, kidney, skin, eyes, and bone marrow (Odu, 1977, Falomo, 1997, Obilo, 2002 and Mabogunje, 2007). Children's mental development may be affected by leaded petrol which may have a permanent and damaging effect later in their adult life. Airborne lead equally contaminates the soil and affects crops growth.

Lead has been banned in the United States of America through the Clean Air Act of 1970, but Nigeria is still using leaded petrol. Crude oil interferes with transpiration and photosynthesis of leaves of plants when it lands on it. Under a heavy contamination, leaves are completely shed, and plants die. Contamination, though not toxic to plants directly, attack the nutrients essential for plant growth which makes their survival almost impossible. Oil spills destroy most soil microbial population which provides nutrients for mangroves.

Natural environment interacts constantly with one another and with the ecosystem either to increase or decrease productivity. This may be why Owolabi (2006) avers that a health environment and equitable natural resources management are two important attributes of sustainable development. Hence, he advocates that a realistic economic growth measurement which will be in agreement with economic policy and sustainable development should be developed. Even in Europe, Canada, United States, Japan and Australia environmental protection and development had been reconciled under the concept of sustainable development.

Environment is neither neutral nor passive, rather, it is a missing and unrecognised factor in the development process of nations (Fakiyesi, 2006). Hence, government at all levels ought to be involved in producing technical and support services for waste management, afforestation, food management, and pollution control. Omuta (1988) observes that waste management is grossly inadequate because infrastructures available in the system are not enough. Asiodu (2007) opines that a comprehensive long-term agenda for the environment is required if Nigerians are to enjoy quality of life.

The quest for profitability by the multinational oil companies, large scale fishing industry, lumbering companies and mineral extracting companies have made such companies exceedingly rich to the detriment of the environment. This has made the issue of environmental management very difficult more so when man's continual exploitation of natural resources is without recourse to emerging stress and problems arising from such activities (Olorunferi and Jimoh 2000). Unfortunately, in spite of all the above mentioned economic gains from exploration of the environment, little or no attention is being paid to the



environment (Camoizzi, 1994). Hence Obilo (2002) notes that bold and urgent steps ought to be taken to eradicate environmental problems.

### **Legal Efforts towards Addressing Various Environmental Problems**

Many hazards caused by the degradation of the environment probably led to the establishment of various legislative/regulatory instruments to address environmental accounting issues. For instance, the Federal Environmental Protection Agency (FEPA) was established with Degree No 58 of 1988 and No 59 of 1992 as amended. Also, the National Policy on Environment 1988 and 1999 as amended came on stream perhaps to complement and strengthen FEPA. Thirdly, the National Environmental Protection (Management of Solid and Hazardous Materials) Decree was promulgated as documented in Regulation 1 Section 15 of 1991.

Other local efforts made include the creation of Local Government Bye Laws and the promulgation of State Edit the creation of Federal Ministry of Environment in 1999 and that of the States Ministries of Environment in 2001. The National Environment Sanitation Policy and Programme was also put in place by the Federal Government to ensure that sound sanitary environment for good health and social well being of present and future generations are guaranteed (Ugboma, 2006).

At the international level, International Standards Organisations (ISO) addressed environmental management issues with the adoption of ISO 14000 series. The European Union's Economic Management and Audit Scheme (EMAS) in 2008 came up with a framework, which expects companies to provide Environmental Statements for every site for 1-3 years. According to the official Journal of the European Communities No. L18814, environmental issues should include description of activities, assessment of all issues relevant to the environment, summary of emission figures, waste generation, consumption of energy, water, raw material, environmental policy program and management system. However, re enforcement of the various acts and decrees with respect to environmental management issues and laws has been very problematic.

### **Methodology**

The oil producing states in Nigeria are Rivers, Ondo, Imo, Bayelsa, Abia, Akwa Ibom, Cross-River and Delta. This Study covers all these states. The units of analysis also include the upstream and downstream oil companies. Shell and Mobil (Producing) were the upstream companies considered while Total and Conoil represent the down steam companies that are studied. Other stakeholders in the oil business whose opinions are sort in this Study include the Nigeria National Petroleum Corporation (NNPC), Federal Ministry of Environment,



Federal Environmental Protection Agency (FEPA), Niger Delta Development Corporation (NDDC), Nigerian Accounting Standards Board (NASB) and some inhabitants of the oil producing communities.

Two categories of variables that relate to the operations and environment in which the oil producing companies operate are identified for Study. These are the internal and external environmental variables which can be classified into environmental management issues, environmental degradation, pollution of various forms; health related issues such as air and water pollution on man, and aquatic life. The second is the operational and economic variables. The operational environment is defined as those factors outside the industry system which affect activities in the oil and gas industry. These variables are vandalisation of oil pipelines, kidnapping of oil workers, as well as social and politically motivated unrest in the oil producing communities. These factors affect the operation of the oil firms and are therefore classified as threats to the oil and gas sector since they militate against the attainment of the system's objective. The overall effect of these variables on the economic development of the oil producing communities is estimated through the instrumentality of questionnaire. Respondents were then asked to rate the effect of each variable on a 5-point Likert Scale of 5(very high), 4(high), 3( slightly high) 2(low) and 1(very low).

Primary data are obtained from structured questionnaire administered onto 206 respondents in the Study area. This is followed by oral interview with some top managers of the oil companies and some inhabitants of the oil producing region. Only 200 questionnaires were properly filled and were used for analysis.

Stratified random sampling technique is employed in selecting the oil producing states and communities. This is simply because not all the communities in the oil producing states are affected by the activities of the oil firms. This technique also minimizes bias saves cost time as well minimizing the incident of over lapping associated with simple random survey methods. Only communities where the oil prospecting activities occur and those incidentals to such locations as a result of linkages usually bear the brunt of the activities of the oil companies. 100 respondents living in twenty-five communities which fall in this category were studied in the oil producing states of Rivers, Ondo, Imo, Bayelsa, Abia, Akwa Ibom, Cross River and Delta. The other set of 100 respondents cut across top management staff of the oil companies some accountants and other stakeholders earlier mentioned.

In all, three sets of questionnaire are administered. Two sets of 50 questionnaires each were administered to the oil companies and the oil producing communities respectively. The last sets of 100 questionnaires also share into two equal half of 50 was administered to accountants and other stakeholders in those communities. Oral interview is also employed to elicit more relevant information



from the respondents especially on how to enhance future development activities in their area. Respondents are also given the opportunity to add further information that may be useful to the Study. The operational environmental variables are analysed using mean response analysis and percentage response from the questionnaire in order to identify the environmental factors that should be accounted for in the Nigerian oil and gas industry.

The degree of impact of the environmental factors on the inhabitants of the oil producing regions are analysed using the mean of response on the impact of environmental factors on the living standard of the oil producing communities at the inception and after full commencement of the operations by the oil producing firms. The differences in the mean values of these two operating periods are computed and tested for significance at probability level of 0.05 using the Z-statistical analytical technique. Ways to enhancing developmental activities in the oil producing communities were scaled in a 5-point Likert scale and analysed in percentages and mean values.

### **Discussion of Result**

Results obtained from questionnaire administered onto some top oil company's management and other stakeholders in the oil industry identified six major environmental factors that are not adequately accounted for by the oil firms (Table 1). These environmental factors in a descending order of magnitude are environmental degradation (4.78), depletion of the ozone layer (4.65), global warming (4.47), pollution of various forms (4.47), destruction of aquatic life as a result of oil spillage (4.44) and hazards from acid rain (4.30). These results show that the ecology or the ecosystem of the ambient environment in which the oil companies operated suffers a very high degree of devastation and imbalance. This imbalance ranges from the physical destruction of the soil topography to pollution of the water and air with all its dangerous effects on human health and environment. Yet, this catalogue of damages caused by the activities of the oil companies never neither appeared in their annual reports nor are they adequately accounted for as externality charges. Hence, (Owolabi, 2006) advocates that these externality hazards should be appropriately accounted for or costed and duly reported in oil firms' annual reports.

The effects of some identified environment factors caused by the devastating activities of the oil firms began to manifest in subtle manner at the inception of their operations. However, 16 years later as presented, in Table 2, environmental related problems became more pronounced as respondents mean rating of these factors increased for environmental degradation, from (1.76) to (4.55) which represents a 159% increase. Other environmental accounting variables equally witnessed astronomical increase especially the incidents of oil



spillage and gas flaring which recorded 264% and 311% increments respectively. Respondents rated very high the case of ozone layer depletion as a result of the full commencement of the activities of oil firm. This variable equally got increased by 118%. The increase in the level of ozone layer depletion may have rubbed off on the twin problems of global warming and acid rain which incidentally increased too. This cascade of environmental events reinforces the assertion of El Sarefy (1995) that the environment is a closely but delicately knitted structure that can easily be destabilised by any action or events within the system which may trigger off series of chain reactions that eventually culminate into polluting the entire environment. Incidentally, respondents rate very high the impact of environmental pollution (4.42) on the standard of living of the inhabitants of the oil producing communities.

Using the Z – statistics to test whether the differences between the means of impact of the identified environmental accounting variables on the inhabitants of the oil producing communities are significant or due to chance at  $P = 0.05$ , we set the null and the alternative hypothesis as follows:

$H_0: u_1 = u_2$  (The mean value of impact of environmental factors is not different)

And  $H_A: U_1 \neq U_2$  (The mean values of impact of environmental factors are different)

Thus, the value of  $Z_{\alpha/2}$  that leaves 0.025 of the total area of normal curve approximately normally distributed with a mean of  $U = U_1 - U_2$  and a known standard deviation has the critical or table value of Z as 1.960. All the computed Z – values (see appendix 2 table 2) are greater than 1.960. Therefore, the null hypothesis  $H_0$  is rejected and the alternative hypothesis  $H_A$  is accepted. This implies that there are indeed significant differences between the means of impact of environmental variables or factors on the life of the inhabitants of the oil producing communities at inception and after the full commencement of operation by the oil prospecting firms in the oil producing region of Nigeria.

In addition, oral interview reveals that the incidence of respiratory infection and hearing impairment due to pollutions in air and noise respectively has been on the increase in the oil producing communities. Secondly, excessive heat sequel to the ozone layer depletion, acid rain, gas flaring and the attendant global warming have increased the incidence of skin diseases too. Thirdly, the incessant oil spillages in the oil producing communities have not only contaminated the soil but also cause water pollution and therefore, cripple the commercial activities of the communities whose principal source of livelihood is fishing. This has precipitated a massive unemployment problem especially among the youths who have become increasingly restive and appear to have taken solace in perpetuating social and political interest in the region through oil pipe line vandalism and by kidnapping oil works as a ransom. The interview schedule

identifies the degradation, problems, stakeholders such as the water and also advocate environment ensure sustainable improve the

### Conclusion

This Study accounted for as, environmental global warming

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A government inhabitant

On companies laws that ensure



identifies three major problems facing the oil community as environmental degradation, insecurity due to the restiveness in the area and poverty. These problems, respondents believe should be addressed by the government and other stakeholders by embarking on the building of massive infrastructural facilities such as the building of schools, provision of social amenities such as good roads, water and electricity and create jobs so as to reduce unemployment problems. It is also advocated that various measures should be put in place to control the environmental hazards caused by the activities of the oil companies in order to ensure sustainable and livable environment. These measures if put in place may improve the economic development of the oil producing communities.

### **Conclusion and Recommendations**

This Study identifies the following environment accounting factors that should be accounted for by the management of oil and gas industries in their annual account as, environmental degradation, ozone layer depletion, environmental pollution, global warming effects, acid rain and gas flaring.

The Study also reveals that these environmental factors have tremendous effects not only on the health of the inhabitants of the oil producing communities, but also on their economy as well. The degree of impact of these variables on the standard of living of the oil producing communities are significant at  $Z = 1.960$  and  $P = 0.05$ .

The Study, therefore, concludes that the oil companies should incorporate these environmental factors in their annual reports in form of disclosures and apportion externality charges on each factor in order to properly address and account for the identified problems.

To further enhance the economic development of the oil producing regions the following are proffered from the Study, as recommendations namely:

The management of the oil and gas companies should report and put a cost on the environmental hazards that result from their activities as externality charges in their annual reports for future policy formulation.

The government and various stakeholders should embark on massive infrastructural development of the oil producing communities by providing, good roads, schools, drinkable water supply and electricity;

Apart from providing qualitative education for the teaming youths, the government and the oil companies should provide or create jobs for the inhabitants of those communities; and

Government should endeavour to monitor the activities of the oil companies in order to ensure that they adequately comply with the guidelines and laws that govern their operations so as to check environmental problems and ensure sustainable environment for the oil producing communities.



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Table i. Response Factors that are

S/N	Variable
1	Environment degradation
2.	Ozone layer depletion
3.	Environmental Pollution
4.	Global Warming
5.	Oil Spills
6.	Acid rain
7.	Gas flaring

Source: Field Survey

Key: 5 = Very



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Table i. Responses from Oil Company's Management on Major Environmental Factors that are not adequately accounted for

S/N	Variables	Degree of Occurrence					Mean
		5	4	3	2	1	
1	Environmental degradation	79.20	20		0.80	0	4.78
2.	Ozone layer depletion	67.51	30		1.66	0	4.63
3.	Environmental Pollution	49.20	48.3		2.50	0	4.47
4.	Global Warming	73	14		10	3	4.47
5.	Oil Spillage	60	30		7	0	4.44
6.	Acid rain	60	20		7	0	4.44
7.	Gas flaring	59	15		13	4	4.11

Source: Field Survey, 2007

Key: 5 = Very high 4 = High 3 = Slightly High 2 = Low 1 = Very low.



**Table ii. A Comparative Analysis of Responses on the Impact of some Environmental Accounting Factors on the in Habitants of the Oil Producing Communities in Nigeria**

S/N	VARIABLES	Inception of oil firms operation (1973-1989)								Full commencement of oil firms operation (1973-1989)								Z-SCORES
		% response				S.D		MEAN		% response				S.D		MEAN		
1.	Environmental degradation	1	2	18	30	49	0.85	1.75	70	20	5	5	0	0.81	4.55	23.25		
2.	Ozone layer depletion	3	10	8	60	19	0.95	2.18	65	30	3	2	0	0.72	4.57	20.08		
3.	Environmental pollution	5	4	3	44	44	1.07	1.82	61	26	10	0	3	0.89	4.42	18.71		
4.	Global warming	0	0	11	32	57	0.69	1.54	72	14	3	2	9	1.22	4.38	20.26		
5.	Oil spillage	1	0	8	1	90	0.67	1.21	75	9	3	7	6	1.07	4.40	25.32		
6.	Acid rain	0	0	1	3	96	0.26	1.05	48	16	15	2	1	1.23	3.90	22.00		
7.	Gas flaring	0	1	0	6	93	0.37	1.09	66	24	5	2	3	0.81	4.48	38.00		

Source: Field Survey, 2007

Source: Field Survey, 2007.

Key: 5 = Very High Impact

4 = High Impact

3 = Moderate Impact

2 = Low Impact

1 = Very Low Impact

REFLE

Department

### Abstract

This paper examines the impact of environmental accounting factors on the in habitants of the Oil Producing Communities in Nigeria. The study was conducted in the form of a descriptive survey. The data were collected from 100 respondents in the form of a questionnaire. The results of the study show that the impact of environmental accounting factors on the in habitants of the Oil Producing Communities in Nigeria is significant. The study also shows that the impact of environmental accounting factors on the in habitants of the Oil Producing Communities in Nigeria is significant. The study also shows that the impact of environmental accounting factors on the in habitants of the Oil Producing Communities in Nigeria is significant.

Keywords: Oil Producing Communities, Environmental Accounting Factors, Impact on the in habitants of the Oil Producing Communities in Nigeria.

### Introduction

The discussion of the impact of environmental accounting factors on the in habitants of the Oil Producing Communities in Nigeria is a topic that has been discussed for a long time. This is because the impact of environmental accounting factors on the in habitants of the Oil Producing Communities in Nigeria is significant. The study also shows that the impact of environmental accounting factors on the in habitants of the Oil Producing Communities in Nigeria is significant. The study also shows that the impact of environmental accounting factors on the in habitants of the Oil Producing Communities in Nigeria is significant.

Although the impact of environmental accounting factors on the in habitants of the Oil Producing Communities in Nigeria is significant, it is not the only factor that has influenced the development of the Oil Producing Communities in Nigeria. Other factors that have influenced the development of the Oil Producing Communities in Nigeria include the impact of environmental accounting factors on the in habitants of the Oil Producing Communities in Nigeria. The study also shows that the impact of environmental accounting factors on the in habitants of the Oil Producing Communities in Nigeria is significant. The study also shows that the impact of environmental accounting factors on the in habitants of the Oil Producing Communities in Nigeria is significant.