# OIL ECONOMY, DUTCH DISEASE AND DIVERSIFICATION PROBLEM IN NIGERIA: LESSONS FOR THE NEWLY OIL PRODUCING COUNTRIES OF AFRICA

**GUSHIBET SOLOMON TITUS & LANDI JAMES HANSI, PhD**
*Department of Economics*
*Faculty of Social Sciences*
*University of Jos*

## Abstract
The paper examines Nigeria's oil economy and the effects of Dutch Disease in the country. Nigeria is an oil rich country, yet the oil wealth have not been translated into development and majority of the citizens are poor. This problem has provoked the study. The aim of the paper is to identify the reasons responsible for the Dutch Disease and the hindrances to diversification in Nigeria, and offer recommendations that could serve as lessons for the newly oil producing countries of Africa namely Ghana, Uganda, Sao Tome and Principe, Ethiopia, Niger, and Sierra Leone. Descriptive statistics were used to analyse secondary data using statistical tools such as tables, figures, percentages and charts. A critical review of conceptual and theoretical issues in existing literatures and records and the descriptive analysis have jointly offered a good insight that enables us draw conclusion and make sound recommendations. The paper finds that rising unemployment, increasing poverty, weak human development indices, rapid infrastructural decay, and bad governance have characterised the Nigerian economy despite the huge oil revenue accruing to the country for over three decades. The paper recommends that oil money should partly be channelled into infrastructural development; partly be invested in national sovereign fund to take into account future generations; and partly be used for realistic poverty reduction programme and employment creation. To achieve these laudable exertions, the government of Nigeria and the new oil rich countries should strive to eradicate corruption. The paper therefore recommends the principle of Death by Hanging for anyone found guilty of corruption and corrupt practices in these countries the Chinese example of getting rid of corruption.

***Keywords:* *Oil Economy, Dutch Disease, Diversification, Lessons, Nigeria, Africa***

## Introduction

The Nigerian economy is heavily dependent on the oil sector which accounts for over 95 percent of export earnings (IMF, 2011). The extraction of oil and gas has generated enormous wealth for Nigeria. This implies high expectations that the oil wealth would create powerful incentives that would lift the country out of poverty and ensure a steady growth and development. Conversely, oil and gas as well as other natural resources Nigeria is richly endowed with, have attracted the perverse phenomenon called "resource curse", where the large wealth generated undermine economic development in the country.

The discovery of oil in Nigeria and its exploitation has led to decline in economic activities especially in non-oil sectors agricultural and manufacturing. Since then the economy has been experiencing rising corruption, escalating conflict, increasing poverty and collapse of infrastructure. As a result, millions of Nigerians are increasingly experiencing decline in standard of living as their poverty situation is worsening despite increasing oil export earnings. It means that majority of the population live in misery and poverty amidst plenty. The over dependence on oil has made Nigeria a rent-seeking and consumption-based economy which transform the country into a net importer nation due to underproduction with persistent

balance of payments deficit and lack of competitiveness in the global market.

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Recently, crude oil has been discovered in some African countries notably Ghana, Uganda, Sao Tome and Principe, Ethiopia, Niger, and Sierra Leone. The expectation is that the recent discovery of oil and gas deposits presents opportunities to chart a sustainable growth and development path that could facilitate poverty reduction in these countries. As developing countries where bad governance hold swear, it however becomes worrisome if these countries will not replicate Nigeria's mistake. This problem has motivated the study. Whether the Dutch disease that followed Nigeria's shifting of attention to oil will also affect these countries remains a question development economists are still asking. This implies that wisdom and deliberate efforts are required in these countries.

These new oil discoveries have also come in the midst of serious concerns and controversies that have characterised the empirical relationship between oil rents and development, particularly in oil exporting African countries. The disappointing development performance of many resource-rich economies including Nigeria has been a topical issue among policymakers, NGOs, civil society groups, mainstream academics and scholars. Many oil-rich countries have failed to leverage their oil wealth to build strong and stable states with sustained long term economic growth and development. For some of these countries, oil, gas and mineral wealth have instead become associated with high poverty rates, weak state institutions, corruption and conflict (Aryeeteh and Asmah, 2011). In view of this, the study would serve as a guide to the newly oil producing countries.

The objective of the paper is to examine the Dutch Disease and oil resource curse in Nigeria with a view to proffering solutions that would serve as sign posts and to draw lessons for Africa's new oil economies to escape the disease. The study is structured into seven parts. Section one is the introduction. Section two is concerned with literature review and theoretical framework. Methodology is described in section three. While section four discusses the oil economy and the challenge of diversification in Nigeria, section five gives the analysis of poverty, unemployment, and human development in Nigeria. Section six concludes the paper as section seven provides the lessons and recommendations.

## Literature review

The plight of resource rich, export nations with respect to Dutch Disease and diversification constraint has gained prominence in academic literature. Since the 1970s, there has been a well documented and repeated phenomenon that resource rich nations have underperformed their resource constrained counterparts on nearly all indicators of economic growth (Kapela, 2009). For example, the per capita GDP between 1970 and 1993 in resource rich nations grew by only 0.8 percent compared to 2.1 to 3.7 percent in resource constrained nations. The most striking example of this is the exceptional growth of the East Asian tigers or the gang of four Asian economies - Hong Kong, South Korea, Singapore and Taiwan that possess little mineral resources compared to the stagnant growth of resource rich African and Latin American nations. Even the economies of the world's largest oil exporters - members of Organisation of Petroleum Exporting Countries (OPEC) either experienced negative annual growth or slower than usual growth during the period (Weinthal and Luong, 2006).

Corden (1988) investigates the effects of Dutch Disease in Netherlands. The study found that the use of booming oil sector revenues for social services were not justifiable and were politically difficult to reduce, and that in the long-run, this has led to economic recession in Netherlands that has affected the Holland government. It implies that countries rich in natural resources are likely to be

exposed to dangerous situation that could turn the blessings into economic problems. This is true of Bolivia, Democratic Republic of Congo, Zambia, Chile, South Africa, and Nigeria (Gelb 1988; Spilimpergo 1999; Bature 2011).

According to Kapela (2009), the resource curse or "paradox of plenty" was first coined by Terry Lynn Karl in his seminal book which refers to those nations whose mineral wealth has led to widespread negative economic, political and social consequences. The inverse correlation between resource wealth and economic wealth (stagnant growth) that typifies a nation suffering from the resource curse has primary causal roots in weak governance at the outset of resource extraction. Most often, when resources are discovered without well established and transparent policies in place to regulate the development of those resources, corruption spreads throughout government because the few officials in control of the resources are financially incentivized to yield increasing power over their mineral sectors.

Bature (2011) evaluates the impact of Dutch Disease in Nigeria for the period 1970 to 2006. The study concludes that government has given too much attention on the oil sector thereby neglecting local industries that could have stimulated faster development. This coupled with corruption and poor governance is largely responsible for infrastructural decay and development gaps in the country. Similar view was given by Lane (1996), Baland and Francois (2000) who observe that Dutch Disease represents an increased rent seeking and harmful distributive struggle for resource rents by numerous groups, which result in a decline in the level of investment and in a low and unsustainable growth rate thereby slowing the pace of economic development in natural resource rich countries.

Resource rich nations consistently rank the lowest of the World Bank's Governance Research Indicators and the Transparency International's Corruption Perception Index. With mineral wealth accumulating into a few hands, corrupt government officials use it as a weapon to consolidate their power, repress civil society and ultimately lead more toward an authoritarian government where accountability and transparency over mineral resource revenues disappears. With this downward spiral of sound governance, the societies of resource rich nations suffer by stagnant or negative economic growth, and consequently, a lack of infrastructural investment in other industries and public goods such as roads, schools and hospitals. Often times the situation is so dire in resource cursed nations that civil unrest builds to the point of wars fought over the minerals, particularly when that mineral is oil. A nation suffering from the resource curse will experience varying degrees of the Dutch Disease and diversification predicament (Weinthal and Luong, 2006).

Dutch disease, being a literature named after Holland's poor record in managing its natural gas wealth in the 1960s, points out that spending out of oil wealth increases demand for non-tradables and so draws productive resources into the oil sector (Budina, Pang and van-Wijnbergen, 2006). This implies the scarcity of investment in productive sectors and the outright abandonment of the real sector for the oil economy. Herein is the paradox of the oil resource curse particularly in developing countries. Dutch Disease implies increases in rent seeking activities that will not drive growth in an economy, unless far reaching measures are taken to manage expectations and avoid the resource curse (Aryeeteh and Asmah, 2011).

Addae (2012) opines that good governance could make a natural resource rich nation avoid the Dutch disease. For example,

leadership accounts for the massive infrastructural development that guaranteed the continuous production of the oil from around 20, 000 barrels daily pre 1944 through 500, 000 barrels daily within five years, jumping astronomically to 8.2 million barrels daily by 1974 in Saudi Arabia. It implies that purposeful leadership is a prerequisite to rapid development that could result from prudent utilisation of the natural resource wealth.

An oil economy is a nation whose livelihood and existence largely depends on oil fortunes (Soludo, 2012). According to businesdictionary.com, oil economy is the portion of the overall economy connected to or depending on the production, refinement, sale, or use of petroleum. These two definitions imply that since oil is required for production and transportation of many other goods, as well as consumer uses such as automobile fuel and heating, events that affect the oil economy have significant effects on other areas of the economy. As an oil economy, the present state of the Nigerian economy is a disappointing one. The road to economic development in Nigeria has not been an easy or a pleasant one since independence in 1960. Increasing poverty and unemployment have characterised the economy (Gushibet, 2012).

In 2005, when failed state index (FSI) was first published, Nigeria ranked 54th in the world. The following year, 2006, its rank worsened to 22nd most failed state in the world. In 2009, it had worsened to 15th position and in 2010, 2011, and 2012 the country has consistently been rated 14th most failed state in the world. A look at the list of the worst 35 countries on 'red alert' would make you take a long deep breath. For y again, Nigeria took the first position as the country with the highest speed of deterioration between 2005 and 2011 (Soludo, 2012). example, the list of the worst 20 in 2011 in descending order of failure include: Somalia, Chad, Sudan, Democratic Republic Of Congo, Haiti, Zimbabwe, Afghanistan, Central African Republic, Iraq, Cote D'Ivoire, Guinea, Pakistan, Yemen, Nigeria, Niger, Kenya, Burundi, Myanmar, Guinea-Bissau, Ethiopia. Nigeria is number 14 on the red alert list. Miserably again, Nigeria took the first position as the country with the highest speed of deterioration between 2005 and 2011 (Soludo, 2012).

Similar report was given by Forbes (2013) who has ranked Nigeria as the 20th saddest place to live in the whole world. Among the list of saddest countries on earth, Central African Republic ranked 1st, Republic of Congo (2nd), Afghanistan (3rd) Chad (4th), Haiti (5th), Burundi (6th), Togo (7th), Zimbabwe (8th), Yemen (9th), Ethiopia (10th), Pakistan (11th), Iraq (12th), Liberia (13th), Angola (14th), Sierra-Leone (15th), Guinea (16th), Cote D'Ivoire (17th), Mozambique (19th) And Nigeria in 20th position. Nigeria records its poor position amidst incredible oil wealth.

The above literatures indicate that, like many African countries resource curse, otherwise known as Dutch Disease is bedevilling Nigeria. It has shown that resource curse is a paradoxical situation in which natural resource endowments end up constituting setback to a country rather than bring positive impact. This is attributable for the infrastructural or developmental gaps resulting from oil wealth in Nigeria.

## Theoretical framework

The relevant theories used in this paper include the expectation theory, the peak oil theory and the dependency theory. These theories provide the link between oil economy and the failure of oil producing countries to diversify.

### i) The expectation theory

The expectation theory postulates that oil discovery; its exploitation and production are expected to improve living standards and quality of life of the citizens of

countries with oil deposits. The newly discovered natural resources and the associated windfalls are expected to power the economy of these countries in terms of job creation, income, investment, growth and development (Aryeeteh and Asmah, 2011). However, the oil economy comes with it the challenge of diversification and Dutch disease as the productive sectors are likely to be abandoned for the oil sector. Herein is the implication for the newly oil producing countries.

ii) The peak oil theory

The peak oil theory propounded by Hubberts (1956; 1962) who stated that at some point oil production will decline and prices will rise, with a dramatic effect on the global economy as a worldwide depression will follow the peak in oil production as high prices drag down the whole world's economy. This implies that peak oil is a problem that needs to be addressed since the world economy is heavily dependent on cheap oil. Unless viable alternatives to oil emerge, and more investments are made in alternative energy sources, the problem will persist since crude oil is a non-renewable resource. The weakness of this theory is that it cannot be used to determine when the peak will occur as it does little to predict the future. In any case, oil production will peak and therefore action needs to be taken now in order to prepare for rising oil prices globally. Rising oil prices however, does not imply utilisation of the oil wealth to transform other sectors of oil producing countries.

Tverberg (2012) offers an alternative theory to the peak oil theory. He argues that there is problem relying on substitution,
supply and demand principle that higher prices of oil destroys its demand, and that greater efficiency and increased production of oil at higher prices will save the day. He said this is wrong. He also disagreed with the notion that oil production will rise and at some point reach a plateau and begin to decline, because of geological depletion. Alternatively, Tverberg observes that an adequate supply of cheap $20 or $30 per barrel of oil is no longer available as most of the 'easy to extract' oil is gone.

The cost of extracting oil keeps rising, but the ability of oil importing economies to pay for this oil does not. There are no good low-cost substitutes for oil, so substitution is very limited. He further stated that the big oil-importing economies are already finding themselves in poor financial condition, as higher oil prices lead to cutbacks in discretionary spending and layoffs in discretionary industries. For example, the government of the United States is caught up in this, as layoffs led to more need for stimulus funds and for payments to unemployed workers, at the same time that tax revenue is reduced. This implies that there could be a temporary drop in oil prices as recession worsens, but eventually demand rises again, oil prices rise again, and the pattern of layoffs and increased financial problem of governments occurs again.

iii) The dependency theory

According to Ashley (2013), dependency theory is used to explain the failure of non-industrialized countries to develop economically in spite of investments from industrial countries. The central argument of this theory is that the world economic system is highly unequal in its distribution of power and resources and places most nations in a dependent position in relation to the industrial powers. Dependency theory states that colonialism and neo-colonialism have created unequal economic relations between poor and wealthy countries. In the past, colonialism allowed wealthy countries to plunder their colonies for material benefits raw materials like sugar, rubber and slave labour. Today, poor countries have taken enormous loans from wealthy countries in order to stay afloat. Paying off the compound interest from these debts prevents them from investing resources into

their own country. Foreign trade gets in the way of local governments' ability to improve the living conditions of their people by encouraging the export of food, crude oil and other raw materials to wealthy consumer markets. Inflow of foreign direct investment goes to the oil and gas sector as foreign investors hardly invest in productive sectors of developing countries. Neo-colonialism implies the control or domination by a powerful country over weaker ones (especially former colonies) by the use of economic pressure, political suppression, and cultural dominance; as the main causes of global poverty.

The international dependency theory which believes that developing countries are caught in a dependent and dominance relationship with rich countries could be explained under neoclassical dependence model, the false paradigm model and dualistic development thesis. The neoclassical dependence model attributes the existence and continuance of underdevelopment primary to the historical evolution of a highly marginal international system dominated by such marginal power relationship between the centre (the developed countries) and the periphery (the less developed countries) which renders efforts by poor nations to be self-reliant and independent difficult and sometimes, even impossible. This problem is more eminent in oil producing developing countries, and cannot be different for the newly oil producing countries of Africa. This is worsened by certain groups in developing countries, including landlords, entrepreneurs, top military brass, politicians, merchants, traditional and royal elements, etc, who enjoy high incomes, social status and political power. According to this theory, they constitute a small elite ruling class and work to perpetuate the international capitalist system of inequality (Todaro and Smith, 2003).

top military brass, politicians, merchants, traditional and royal elements, etc, who enjoy high incomes, social status and political power. According to this theory, they constitute a small elite ruling class and work to perpetuate the international capitalist system of inequality (Todaro and Smith, 2003).

The false paradigm model which attributes under-development to the faulty and inappropriate advice provided by well-meaning but often un-informed international "experts" from developed country assistance agencies and multinational donor agencies. The dualistic development thesis postulates that the world is made up of dual societies, of rich nations and poor nations, and in developing countries, pockets of wealth within broad areas of poverty (Gushibet, 2012). This concept of dualism embraces four key elements:

i) Different sets of conditions of which some are "superior" and others "inferior" can coexist in a given space;
ii) This coexistence is chronic and not merely transitional;
iii) The degree of superiority or inferiority do not show any sign of diminishing, but have an inherent tendency to increase; and
iv) The interrelations between the superior and inferior elements are such that the existence of the superior elements does not pull up the inferior ones.

The critical message from these theories is that development is multi-disciplinary and that each of them (notwithstanding their shortcomings) still captures some aspects, at least, of the challenges of contemporary oil producing developing countries, including Nigeria. From the dependency theory, it could be deduced that the newly oil producing countries of Africa would not be pulled up by the developed countries in terms of technological development. It implies the need for a disciplined and prudent use of oil revenues in these countries.

developed countries in terms of technological development. It implies the need for a disciplined and prudent use of oil revenues in these countries.

Though the peak oil theory and its alternative version provide a good insight on the exhaustible nature of oil deposits and the demand and supply as well as oil price war, the study is more inclined to the expectation theory. The expectation theory is more relevant because it prepares the new oil rich economies to meet up with the challenges of prudent use of oil revenue to escape the danger of Dutch Disease, diversification problem, mismanagement and resource curse.

## Methodology and Sources of Information

Secondary literature and data obtained from Journals, Newspapers and Magazines, internet materials and government publications were used in the study. These pieces of information and data were collected from National Bureau of Statistics, official reports from local and international authorities, vendors and internet sources. Descriptive statistics was used to make analysis of the secondary data using tables, figures and percentages to achieve the objective of the study. Notably, reviewing related conceptual and theoretical literatures as well as using deductive reasoning gives a deeper insight that enables the authors to draw reasonable conclusions and make sound recommendations.

## Oil Economy and the Challenge of Diversification in Nigeria

Since Nigeria's first National Development Plan (1962-1968) through the fourth Plan and ever since, public policies have primarily focused on diversifying Nigeria's economy from dependence on the volatile and even exhaustible primary commodities. A review of the first to third national development plans would show 71 references to 'diversification of the economy' and 48 references to 'transformation of the economy'. Some 50 years after, and despite the dozens of 'blueprints' or 'plans' for diversification, the economy remains even more structurally concentrated and helplessly dependent on a mono-product called oil, and with rain-fed agriculture still accounting for 40% of GDP (Soludo, 2012). Diversification has not happened, and if current trends continue, will probably not happen in the foreseeable future. The consequences are dire, and the search for an escape into a path of sustainable development is urgent.

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It seems oil has been a curse to Nigeria as its discovery has tarnished agriculture and ruined industrialisation. The once viable plantations, cocoa and ground nuts that substantially drove the economy in the pre-oil era have gone to oblivion. The vibrant textile industries have since disappeared. The path to sustainable transformation has been deluded and broken by the perverse incentives embedded in the institutional framework around oil rents, together with the indolent/entitlement culture which it has created and sustained.

Despite the plethora of 'reforms', 'plans' or 'blueprints', including the indigenization policies, Structural Adjustment

Programmes (SAP), the National Economic Empowerment and Development Strategy (NEEDS), the 7-Point Agenda, transformation agenda; national long term visions, etc for over 50 years, Nigeria is still in search of a diversified economy that can support the burgeoning population in the 21st century and beyond.

The structure of the Nigerian economy is too concentrated and too fragile to cope with the modern day global competition. The economic structure is inimical to development, and the need to overhaul the country's political and economic structure has become important. Many scholars erroneously h to invest at present in infrastructure, social and development programmes, because oil is a non-renewable product. This implies that oil revenues should be managed in a very transparent, sincere, accountable and professional way.
believe that once power is fixed, industrialisation will automatically be achieved in Nigeria. According to Soludo (2012), industrialisation requires explicit strategy and leadership, and Nigeria has not begun. Oil production could be a key driver of growth only if oil revenues are effectively integrated into a medium-term fiscal framework that maximises the use of the oil wealth over time (Coronel, 2013). This involves deciding how much to save for future generations and how much to invest at present in infrastructure, social and development programmes, because oil is a non-renewable product. This implies that oil revenues should be managed in a very transparent, sincere, accountable and professional way.

The oil sector encourages consumption-based system, speculative and criminal economy as well as briefcase-carrying and rent-seeking activities (oil bunkering, corruption, asset price speculation, prostitution, drug trafficking, 419, yahoo scammers, kidnapping, armed robbery, smuggling, dealership in fake and sub-standard products, etc). The global criminal economy is estimated at over $4 trillion dollars and Nigeria has its share. The dash system has become pervasive and there is a whole army of able-bodied people who have never earned income through work, but demand and depend on 'dash' for daily existence. These negative attitudes and the entitlement culture which is a part of Nigeria's oil-renter economy have created disincentives for hard-work, and the pressure and commitment to be competitive. This means that the incentive-reward system is upside down, and there are very few national icons in the world of productivity. It thus becomes impossible to build a competitive system where the bulk of the productive elite are more comfortable in the underground economy. This is the major reason for Nigeria's un-competitiveness.

Whenever the issue of diversification comes up, most commonly recommended interventions include: transport infrastructure, electricity, security, law and order, low interest rate, stable exchange rate, low inflation, tariffs, export incentives, tax concessions, investment in R & D, government patronage in procurement, addressing shortage of critical skills through competitive educational system, speedy resolution of disputes and enforcement of contracts, elimination of corruption and bureaucratic red-tape, fixing government finance, etc. The above are important, but they have always been recognised as important for over 50 years: why have they not been fixed?

Some people would say bad leadership in Nigeria. Yes, both leadership and the 'system' are problematic. Surely, we need good leaders but equally important, we need a competitive system that allows any potentially good leader to emerge and perform. Nigeria is indeed mired in a vicious circle of bad system producing bad leadership which in turn accentuates the bad system. To solve this

problem, the type of leaders thrown up under a democracy and the latitude they have for creative change depends upon the nature of the legal-institutional infrastructure and the incentive system. An individual can make a difference but ultimately it is institutions that make all the difference.

The dysfunctional system and its perverse incentives have made it difficult if not impossible to diversify. The central point is that the oil economy, with its easy money as well as the 'system' created to distribute and consume it, have halted Nigeria's quest for a diversified and competitive economy. With the current centralised, obtuse but largely inefficient federal government and the consumption drains as states and local governments, Nigeria will not be able to muster the level of savings and investment required for economic diversification and development.

The consolidated public sector basically consumes much of Nigeria's national income, and the kind of federal structure run in the country is at the heart of the problem. On a per capita basis, and compared with any other viable federation in the world, Nigeria has too much government. The requirement for consolidating revenues from oil and other sources and sharing to each tier of government, and each armed with the statutory powers to spend unconditionally has distorted the politics of state and local government creation. The emphasis is on 'distribution' not 'production' in Nigeria. Currently, more than 70 per cent of federal account revenue comes from oil. These monies are simply mismanaged and there is no incentive to promote production and growth.

Under the federal, state and local governments system, the politicians, unlike the ones under the regional system, do not have to build industries or palm plantations for government to generate revenue. Like manner from heaven, oil money simply flows. A governor of a state can afford to squeeze the industries owned by his political opponents. He does not need the tax revenue from the company. As for jobs, he could literally employ any number he wanted in the public service in so far as the rents flow. But there is no incentive to be productive. Again, the easier rents provided by oil and the distributive state structures means that a large proportion of the productive population is lured out of productive activities into briefcase-carrying and rent-seeking 'suppliers' and 'politicians'.

Further, the massive consumption involved in servicing the wasteful bureaucracies erected as distribution pipes of the oil rents means that there are little resources available for investment. Nonetheless, the real exchange rate appreciation that usually follows huge inflows of oil receipts (the so called Dutch Disease syndrome) hurts non-oil exports and hence f diversification and competition.
domestic output. It is not an accident that non-oil exports have not exceeded 5% of total exports in Nigeria since the 1970s a systemic failure to diversify over the years as free money from oil has destroyed the incentives to promote industrialisation and revolutionise agriculture in the country. This means that to make progress, Nigeria must become a trail blazer that comes out of comfort zone to break the oil curse and zoom into the territory of diversification and competition.

## Poverty, Unemployment and Human Development in Nigeria

### Analysis of Poverty Rates in Nigeria

Widespread poverty and rising unemployment are clear evidences that oil wealth have not been translated into prosperity and development in Nigeria. For example, table 1(a) below shows the Harmonized Nigeria Living Standard Survey (HNLSS, 2010). The table shows that poverty rate has been on the increase from 1980 to 2010. Poverty rate was low in 1980 where about

72.8% of the population were non-poor, but it kept increasing to a point where only 31% were considered non-poor in 2010. This implies a rising trend or tremendous increase in poverty during the period. The table also shows a significant increase in the number of extremely poor Nigerians from 6.2% in 1980 to 38.7% in 2010. This represents 32.5% increase in poverty rate during the period under review. It should be noted that in spite of consistent huge oil revenues (oil export earnings) as indicated in table 6, poverty has continued to ravage the economy.

Table 1(a): Relative Poverty by Categories in Percentage in Nigeria (1980-2010)

Table 1: Relative poverty: Non-poor, Moderate poor and the Extremely poor (%), 1980-2010

| Year | Non-poor | Moderately poor | Extremely poor |
|---|---|---|---|
| 1980 | 72.8 | 21.0 | 6.2 |
| 1985 | 53.7 | 34.2 | 12.1 |
| 1992 | 57.3 | 28.9 | 13.9 |
| 1996 | 34.4 | 36.3 | 29.3 |
| 2004 | 43.3 | 32.4 | 22.0 |
| 2010 | 31.0 | 30.3 | 38.7 |

Source: NBS, Harmonized Nigeria Living Standard Survey, 2010

Similarly, table 1(b) shows that poverty incidence has been on a rising trend from 27.2% in 1980 where 17.1% of the population were poor, to 46.3% in 1985 which represents 34.7 million out of 75 million Nigerians as at then. By the year 2010, the estimated population was 163 million with poverty incidence of 69%, implying that 112 million Nigerians were poor as at 2010. A cursory look at table 3 would indicate rising poverty across the six geo-political zones of the country. Incidence of poverty by zones using different poverty measures shows that the North West has the highest incidence of poverty followed by the North East, North Central, South East and South South respectively with South West having the least incidence of poverty in the country. Overall, poverty is prevalent in all the zones including the oil producing communities in the Niger Delta region.

Table 1(b): Relative Poverty by Headcount (1980-2010)

Table 1 Relative Poverty Headcount from 1980-2010

| Year | Poverty Incidence (%) | Estimated Population (Million) | Population in poverty (Million) |
|---|---|---|---|
| 1980 | 27.2 | 65 | 17.1 |
| 1985 | 46.3 | 75 | 34.7 |
| 1992 | 42.7 | 91.5 | 39.2 |
| 1996 | 65.6 | 102.3 | 67.1 |
| 2004 | 54.4 | 126.3 | 68.7 |
| 2010 | 69.0 | 163 | 112.47 |

Source: National Bureau of Statistics, HNLSS 2010

Table 3: Incidence of Poverty by Zones using different poverty measures (%)

| Zone | Food Poor | Absolute Poor | Relative Poor | Dollar Per Day |
|---|---|---|---|---|
| North Central | 38.6 | 59.5 | 67.5 | 59.7 |
| North East | 51.5 | 69.0 | 76.3 | 69.1 |
| North West | 51.8 | 70.0 | 77.7 | 70.4 |
| South East | 41.0 | 58.7 | 67.0 | 59.2 |
| South-South | 35.5 | 55.9 | 63.8 | 56.1 |
| South west | 25.4 | 49.8 | 59.1 | 50.1 |

Source: NBS, HNLSS, 2010

The recent poverty profile in Nigeria is worrisome. Thus, the primary objective of any economic policy of government is to achieve improvement in the living standard of the people, particularly, in terms of alleviation of poverty. Available data from the Harmonized Nigeria Living Standard Survey (HNLSS) 2009/2010, which remains the follow-up to the Nigeria Living Standard Survey (NLSS) 2003/2004, conducted by the NBS reveals that efforts to alleviate poverty was not satisfactory. For instance, relative poverty and absolute poverty rates increased to 69.0% and 60.9% in 2010 respectively from 54.4% and 54.7% in 2004. This implies that the population in relative poverty grew by a compound annual growth rate of 8.56% above the average growth rate of 7.2% per annum since 2004, indicating further that the economy should increase above 8.56% per annum for economic growth to trickle down to alleviate poverty to an acceptable level.

Table 4: National Poverty Incidence (2004 versus 2010)

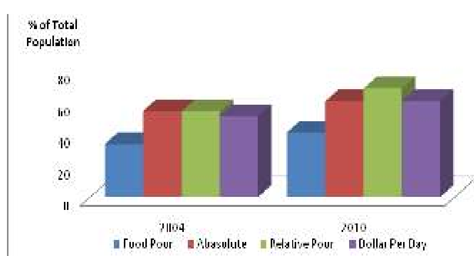
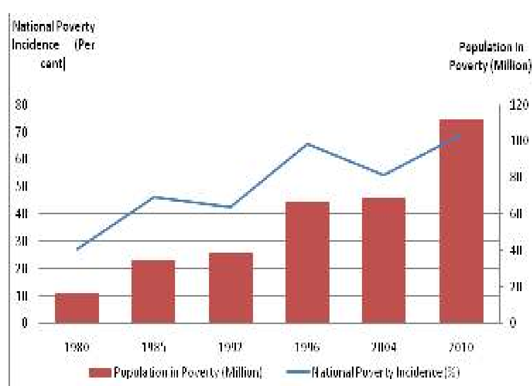



Table 5: National Poverty Incidence (1980-2010)




Source: NBS, 2011

However, there was a slight decline in the percentage of population below one dollar per day by Purchasing Power Parity (PPP) from 62.8% in 2004 to 61.2% in 2010. The highlight is in Tables 4 and 5 above. The need for the costs of governance to reduce drastically, particularly, by cutting down recurrent expenditure, specifically, the number of aids, ministries, departments, agencies, wastages, etc is glaring. It is also supportive to place more emphasis on non-oil sectors to increase output, employment and income.

Table 6: Nigeria's Oil Shares to Total Export Revenues in Percentage (1980-2010)

| Year | 1980 | 1985 | 1990 | 1995 | 20002 | 2005 | 2008 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Oil Export Earning | 97.4 | 98.2 | 97.1 | 98.0 | 96.9 | 98.2 | 98.4 | 97.7 |

Source: OPEC Reviews, NBS, CBN (various issues)

Analysis of Employment and Unemployment Situation in Nigeria

The general trend in the rate of unemployment in Nigeria is consistently rising despite colossal oil wealth accrued the country. For example, unemployment rate kept rising from 11.9% in 2005 to 12.3% in 2006, 12.7% in 2007, 14.9% in 2008, 19.7% in 2009, 21.1% in 2010 and 23.9% in 2011 (NBS, 2011).

Table 7 below reveals that the rate of unemployment increased significantly over the past recent years. In 2008, about 9.1 million of the 61.1 million Nigeria's available labour force was unemployed. By 2010, the total number of unemployed Nigerians had increased to 16 million. Available data shows that unemployment rate has been on the increase; rising from 14.9% to 21% between 2008 and 2010. This is not expected in the oil rich Nigeria which has earned well over US$600 billion from oil since 1973 (Soludo, 2012).

Table 7: Trend and Pattern of the Labour Force in Nigeria (2008-2011)

| | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| Labour force | 61,191,700 | 63,149,835 | 65,170,629 | 67,256,090 |
| Employment | 52,074,137 | 50,709,317 | 51,224,115 | 51,181,884 |
| Unemployment | 9,117,563 | 12,440,517 | 13,946,515 | 16,074,205 |
| Employment rate (%) | 85.1 | 80.3 | 78.6 | 76.1 |
| Unemployment rate (%) | 14.9 | 19.7 | 21.4 | 23.9 |

Source: NBS, 2011

Analysis on Nigeria's Human Development Indicators

Though Nigeria recorded slight improvements in key human development indicators during the review period, in particular measured by health, education and income indices, the quality of life of Nigerians

generally remained poor (UNDP, 2010). The improvements were only marginally between 2008 and 2010. As shown in Table 8, life expectancy at birth increased marginally by 0.9% from 47.93 years in 2008 to 48.4 years in 2010. This is well below the present Administration's target of 55 years as contained in the Transformation Agenda. Income (GNI) also recorded slight improvement from US$1,977 to US$2,057 and US$2,156 in 2008, 2009 and 2010 respectively. The weak Human Development Index is an indication that oil wealth has not improved human welfare in Nigeria.

Table 8: Human Development Index Trend for Nigeria (2008-2010)

| Index | 2008 | 2009 | 2010 |
|---|---|---|---|
| GNI | $1,977 USD | $2,057 USD | $2,156 USD |
| Life Expectancy (Health) | 47.93 | 48.17 | 48.4 |
| Education Mean | 4.96 | 4.96 | 5.0 |
| Expected | 8.9 | 8.9 | 8.9 |
| HDI value | 0.416 | 0.419 | 0.423 |

Source: UNDP Human Development Report 2010

The analysis above has shown that Nigeria was better off before attention shifted to oil in the 1970s as its main revenue spinner. It is still amazing to recollect the wonder income generated from agricultural produce (cocoa) for the country. However, not long after the discovery of oil that the economic poverty of the 1980s started, followed by the executions of 1990s (e.g Ken Saro-Wiwa) and incessant strikes and closure of Universities in the 1990s through 2000s and 2010s. All these problems emanated from the struggle for oil wealth. Today, the difference simply bows down to the mismanagement of oil revenues unlike the earnings from cocoa, ground nut and rubber so well that with the billion of petro-dollars available to successive regimes, the country has continued to retrogress.

## Conclusion

The study has identified oil as the source of Dutch Disease that hinders diversification in Nigeria. Nigeria's story might not be the path that the newly oil producing African countries would want to follow. Yet, Nigeria's mistakes have provided a window of escape for these countries. Where they eventually fail, these countries are to blame for inability to learn from the mistakes of others. The study upholds that learning from the experiences of Nigeria's oil economics and her overdependence on the oil economy as well as the negative consequences of mismanaging oil revenues, would provide an escape route for the newly oil producing countries of Africa. This implies avoiding the resource curse by managing oil wealth to motivate growth and advance development in these economies.

These countries have the ample opportunity to learn from the mistake of Nigeria the largest oil producing country in Africa and sixth largest in the world. The paper has identified a problem between oil rent and development which could result in rent seeking activities and Dutch Disease. This would enable the newly oil producing economies take measures to manage the oil wealth transparently for positive transformation of these countries.

## Lessons and recommendations

The newly oil producing countries are in a stronger position to prevent oil from halting the growth and development of their economies in terms of employment generation, poverty reduction, infrastructural development, and planning for the future. It implies that these countries are better placed to improve on the accountability and transparency in the use of oil revenues, and petroleum industry regulations. Wasting or mismanaging oil fortunes has dire economic implications. It aggravates poverty, inequality, insecurity and loss of nationhood. This means

that improving the quality of institutions and ensuring accountability and transparency in the use of oil wealth have become important. Prudent spending of oil revenues on education, health, power, and infrastructure development are essential. Oil revenues should not be taken by corruption and its usage should incorporate future generations. For instance, the establishment of Sovereign Wealth Funds Authority (SWFA) could create a buffer for future generations.

To achieve transparency, national oil companies of these countries should be privatised as soon as possible. Government should then introduce a privatization and royalty/tax scheme that allows for complete privatization of national oil companies with 60 percent domestic ownership and 40 percent foreign ownership. In addition to privatization, government should develop a policy framework to regulate petroleum industry activities such as environmental and labour policies. It should be put in place a disclosure mechanism that publicises any and all documents that relate to transactions between all petroleum industry stakeholders, including but not limited to, the government, private companies, foreign investors, and civil society. It implies open disclose of all petroleum agreements and licensees.

In order to enhance oil revenue collection and expenditure, these countries should quickly establish a Petroleum Tax unit in the nation's Internal Revenue Service and staff it with the sufficient capacity to monitor and enforce all taxable parties involved in the petroleum industry. On the expenditure side, establishing a Petrodollar sovereign investment plan that involves investments for the future and into critical infrastructure such as roads, schools, hospitals, etc., would ensure the growth of non-oil sectors to diversify the economy. It implies that establishing an oil fund that can only be tapped into in times of strictly defined economic crises or at the point of oil production decline has become important.

Functioning and sound infrastructure is the foundation to fostering economic growth in industries other than petroleum. There is need to set up economic diversification funds in these countries. The fund should identify both existing industries that will suffer from petroleum exports under the tenants of Dutch Disease and new industries that should be encouraged to develop.

The development of a new generation of honest and wise leaders will proffer solutions to the problems identified in this study, and will change the future of Nigeria and indeed the newly oil producing countries. This will happen only if the present generation of youths can uproot the seeds of greed, corruption, illiteracy, tribalism, religious manipulation, intolerance and fanatism that were and are being instilled in them by the actions and inactions of certain leaders in the past and the present in Africa most especially Nigeria. This implies that attitudinal change at all levels has become imperative to build a viable and strong economy. The new oil rich countries are to take note.

The newly oil producing third world countries should learn from the experience of Nigeria and other countries. They should not concentrate on oil, and should learn to use the proceeds from oil to fund diversification schemes in other aspects of their economies since oil is a wasting asset or an exhaustible resource. So, they should build a strong economy and make provisions for the future. It is important they do that. Further, agriculture should be given the attention it deserves, local or domestic manufacturers should be energised and industrial base be broadened using the oil revenue because the oil wells would someday dry out. Technological or industrial advancement is a

sure way to sustainable development. These countries should promote technology transfer, diffusion and learning especially in non-oil sector, financial and non-financial private sector (the manufacturing sector) to power the real economy and to build self-reliant countries - a path to sustainable development.

Above all, development cannot not be achieved if corruption is not tackled headlong, and the paper recommends that government of Nigeria and the newly oil producing countries of Africa should strive to eradicate corruption by passing into law the principle of Death by Hanging for anyone found guilty of corruption and corrupt practices in these countries the Chinese paradigm of getting rid of corruption.

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