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Original Paper

Resource Curse, Causes and Solutions to Nigerian Economy

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Abstract

The study examined the reasons behind the resource curse as well as the difficulties Nigeria's economic development faces. The main issues noted were excessive reliance, a large debt load, the impact of trade shocks, the political business cycle, exploration expenses, corruption, revenue loss from subsidies, oil theft and vandalism, operational costs, resource swapping, the influence of multinational collaboration, the absence of industrialization, the impact of imperialism, a lack of advanced technology, inconsistent government policy, and ethnic conflict, among other issues. These obstacles contribute to the underdevelopment as of the Nigerian economy. It was determined that in order for Nigeria to experience meaningful development, the government and its various organizations needed to implement new policies and strategies to coordinate the management of the abundant resources with which nature has blessed the nation in a way that will further the country's economic development.

Introduction

The phrase "resource curse" was used in 1993 by Harvard economists Richard Auty to characterize the situation in which nations endowed with abundant natural resources saw slower economic growth than those lacking such resources because these nations seemed unable to make the most of their richness. Natural resources that help create riches have become a "curse" in the sense that developing nations with abundant natural resource wealth are still finding it difficult to better utilize these resources for national development. Compared to nations with low amounts of natural resources, the majority of these countries have low levels of growth, absolute poverty, and poor welfare conditions.

Corruption, currency rate appreciation, foreign ownership, war, weak governance, financial mismanagement, and political interest are all possible explanations for what is happening in those countries. Nigeria, Congo, Gabon, a Sudan, Zambia, Sierra Leone, and Angola are examples of resource-rich nations with relatively low rates of economic growth. As a result of this action, these resources have been given undesirable nicknames such as black oil, black gold, and blood diamond in Africa, implying that they are cursed. Mauritius, Botswana, Ghana, Senegal, Tanzania, Namibia, and Malawi are resource-poor African countries that have enjoyed peaceful and stable governments since their independence.

Literature Review

Sach and Warner (1999) discovered a negative relationship between the rate of economic expansion and the quantity of resources. Given the availability of raw materials, it is proposed that rent-seeking activities might have a negative impact on both political and economic frameworks. In their analysis of the relationship among resources from nature and economic development in sub-Saharan Africa (SSA), Fabrizio and Abdur conclude that while resource dependence slows growth overall, it does so specifically in sub-Saharan Africa. It also demonstrates that this distinctiveness is independent of the kind of basic commodities that sub-Saharan Africa is known for. Rather, the peculiarity of sub-Saharan Africa seems to result from the interplay between natural resources and institutions.

Furthermore, Easterly and Levine (1997) argue that this weakness stems from the continent's high level of ethnic dispersion. According to Collier and Gunning (1999), institutional weakness is the primary cause for Africa's lack of important economic drivers. Nunn (2007) attributes the origins of dysfunctional institutions to colonial authority and the slave trade.

Following Gelb, Richard Auty (1993) examined the industrial policies these nations implemented and the results they produced. He emphasized the erratic nature of mineral revenues, described the mining industry as having enclave tendencies, and demonstrated that governments in mineral-rich nations typically collected little in the way of withholding tax due to the fact that overseas-owned mining corporations repatriated their earnings abroad. According to UNDP (2006) research, nations with robust natural resource sectors have underperformed economically and socially when compared to those with inadequate resources. Data indicates that between 1960 and 1990, per capita incomes in resource-deficient nations increased. With rates broadening from the 1970s onward, countries expanded at two to three time's quicker rates than those of countries with a dominating export-driven non-renewable resource industry. Small nations with abundant mineral resources pay the most as they lack developed alternative industries to counteract the impact of fluctuating revenue and/or long-term output declines.

Alan and Gelb (1988) established a resources curse thesis; he found that mineral economies experienced a more serious deterioration in the efficiency of their domestic capital formation during the boom period of 1971 – 1983 than did non-mineral economies. Gelb argued that the cost of using oil windfall can offset the gain from the windfalls themselves. The transparency agency put the value of crude oil and allied products so far lost are equal to the size of Nigeria's entire foreign reserve. Comparing the losses to the nation's present declining revenue profile, the report stated that action must be taken by the government to stop oil theft in order to lower the budget deficit and the need for external borrowing. Financially speaking, the nation lost enough in 20 months to cover the projected 2020 budget deficit.

Reasons for the Resource Curse

1. Over Dependency: According to dependency theory, wealthier States would profit from resources transferred from resource-rich but economically impoverished countries, whereas resource-rich but impoverished and developing nations will suffer (Tausch, 2003). The majority of nations rely heavily on this natural asset without diversifying into other essential resources, which has a negative impact on the expansion of their economies. Since these resources are a substantial source of national income, even a little shift in price can have a significant impact on national planning.

2. High Debt Portfolio: One of the main contributing factors is the debt load of these resource-rich nations. A portion of these liabilities are payable in foreign currencies like pounds and dollars. Their high exchange rate as compared to the currencies of resource-rich nations has a detrimental impact on the economy.

3. Impact of Political Economy Cycle: In Africa's less developed nations, politics serves as a means of personal enrichment rather than national development and expansion. To satiate their appetite for politics, the nation's political elite divide the national income like a piece of cake.

4. Trade shocks: According to Engel's research, natural nations with abundant resources always experience a decrease in the terms of trade shocks. As a family's income rises, the percentage of its income utilized for essentials such as food decreases while that spent on luxuries (consisting for manufacturing goods and services) rises. This means that the total barter conditions for trade of countries exporting resources and buying manufactured goods tend to fall. Even if there are no unexpected events unexpected gains (or losses) necessitate prudent economic management (Matthew 2005).

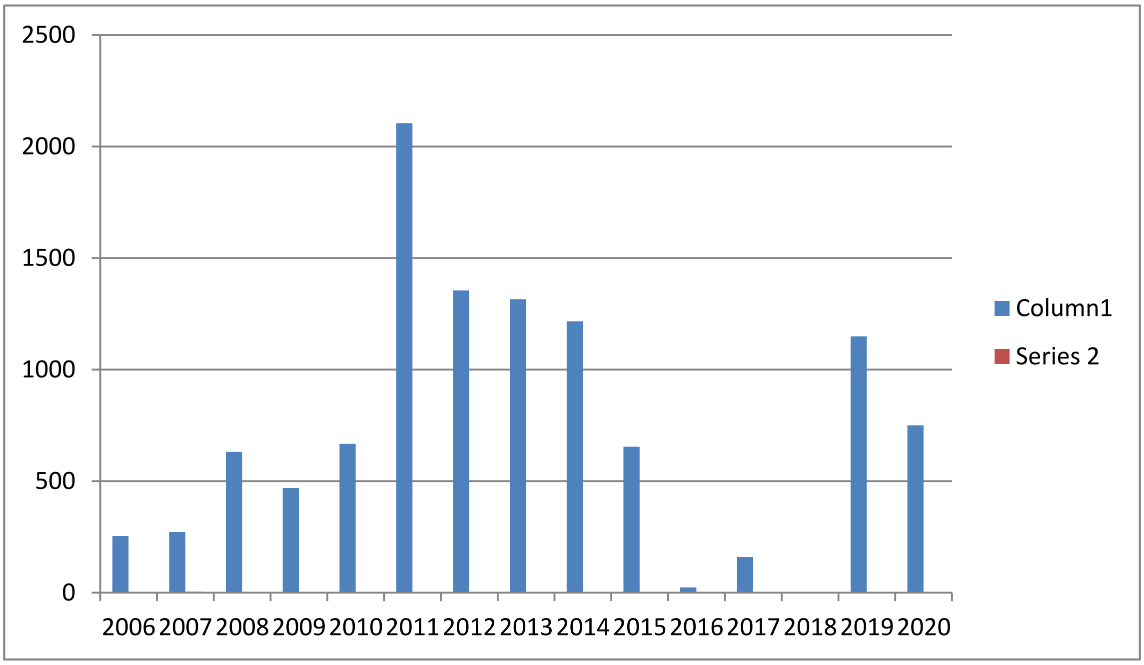
5. Exploration Cost: The capital cost of exploration of petroleum diamond and gold are very high, which in the end are largely passed on to the host resource rich country government but they also result in lower profits accruing to the countries or shareholders.

6. Corruption: This is a popular business in resource-rich countries such as Nigeria, which has been defined by a large number of corrupt government officials who have developed a taste for purchasing foreign mansions, shopping malls, and investing in foreign land, which can be considered capital flight in these countries. The former Head of State of Nigeria, the Sani Abacha family, is estimated to have robbed \$4 - \$6 billion in assets from the Nigerian state while the global community provided Nigeria with \$1.1 billion in development assistance.

7. Revenue Loss on Subsidy: the major factor affecting the resource rich countries such as Nigeria is subsidy which most revenue accrual to the country is used to pay for subsidy of importation of motor spirit, diesel, kerosene and cooking gas. A report by the Nigerian National Petroleum Cooperation (NNPC) states that between 2006 and 2016, the Petroleum Support Fund (PSF) plan extended gasoline subsidies by N8.97 trillion. The leading crude oil producer in Africa, which imports the majority of its petrol due to inefficient refineries, has controversial fuel subsidies. The price of gasoline is artificially controlled at N145 ($0.48) per liter. Because it was not economical for independent marketers to sell gasoline in Nigeria due to the discrepancy within the price ceiling and international fuel costs, the country's state oil firm, NNPC, has imported about 90% of its gasoline over the last two years. The Nigerian government allocated N1.4 trillion in 2019 for gasoline subsidy payments, which is almost five times the yearly capital budget provision for trade and investment, education, healthcare, and agriculture put together.

Subsidy

YEAR	AMOUNT
2006	N254billion
2007	N272billion
2008	N631billion
2009	N469billion
2010	N667billion
2011	N2.105trillion
2012	N1.355trillion
2013	N1.316trillion
2014	N1.217trillion
2015	N654billion
2016	N24billion
2017	$160million
2018	N/A
2019	N1.149, 385trillion
2020	N750.81billion



Source: petroleum products and pricing and regulatory agency report

8. Unending vandalism of oil and gas assets, as well as petroleum product theft, continue to have a severe impact on the economy, as the Nigerian National Petroleum Corporation (NNPC) announced that it paid N35.74 billion on pipelines repairs and management in five months from January to May 2020. This trend continues, with the NNPC reporting a 12.94% decrease from the N41.05 billions of dollars spent on pipeline maintenance during the preceding five-month period, September to December 2019. According to the NNPC's May annual financial and operational reports, N8.31 billion in petroleum products were stolen during the time frame under review, a 7.09% increase from N7.76 billion taken from August and December 2019.

Breakdown of Pipeline Repairs

N5.48 billion	January 2020
N6.74 billion	February2020
N7.69 billion	March 2020
N7.84billion	April 2020
N7.99billion	May 2020

Breakdown of Lost on Oil Theft

N1.71billion	January 2020
N1.83 billion	February 2020
N1.59 billion	March 2020
N1.64 billion	April 2020
N1.54 billion	May 2020

The NNPC spent N36 billion on pipeline repairs, but N8 billion in petrol was stolen in five months. Over the course of 13 months, N118.61 billion had been spent on pipeline management and repair. May 2019 through May 2020. During the same time frame, N34.87 billion worth of petroleum products were pilfered. Monthly fiscal and operational reports for NNPC may 2020. The Nigeria Extractive Industries Transparency Initiative (NEITI) estimates that between 2009 and 2018, Nigeria lost around $42 billion due to crude theft and losses from domestic and refined petroleum products. Private research data estimates the loss to be between 2,000,000 and 400,000 barrels per day (bpd), while government figures place it between 150000 and 250000 bpd. Additionally in another newspaper Crude oil theft cost Nigeria $750 million in 2019.

9. Operational Cost The country's refinery operations continued to result in losses. According to the NNPC, the three refineries—Kaduna Refinery and Petrochemical Company (KRPC), Warri Refinery and Petrochemical Company (WRPC), and Port Harcourt Refinery Company (PHRC)—collectively recorded an N48.5 billion investing deficits in the initial five months of 2020.

DEFICIT	AMOUNT
KRPC	N18.81 billion
PHRC	N15.69 billion
WRPC	N14.012 billion
TOTAL	N54.26billion
REVENUE	N5.76billion
DEFICIT	N48.50 billion

(NNPC may 2020 monthly financial and operational reports)

10. Resource Swapping: Some of those countries use resources as a means of debt settlement which affect the growth of their economy compared to other developed countries during President Ibrahim B. Babangida’s regime Julius Berger Construction Company used to be settled for their services in crude oil.

11. Effects of Multi-National Cooperation: This multinational cooperation have their headquarters in developed countries with branches in less developed countries which are engaged in sourcing of raw materials such as petroleum, gold, iron ore and diamond which are not process in the less developed nations (Helen Clark:2011).

12. Lack of Industrialization: The implementation of industrialization policy is still low in the rich endow nations. The lack the capacity to convert the raw material and manufacture goods for consumption or further production.

13. Impact of Imperialism: Although most of these countries are theoretically independent, in practice they are dependent on their colonial overlords, who continue to determine the course of development for all of these resource-rich nations. the aftermath of colonialism that persists in many parts of Africa. This is seen as a crucial component of the abundance of resources. The word describes the political and economic ties that undergird and achieve the same goals as the colonial era, with a similar exploitative and asymmetric nature, between post-colonial Africa and the western world. The broad policies, cultural practices, and political framework that the colonial powers left behind or gave to their rulers were not determined by the will, desire, or choice of

14. Lack of Advanced technology Knowledge: Compared to other industrialized nations, resource-rich nations lag behind in technology innovation, which has an impact on economic growth.

15. Government Policy Inconsistency: Political systemic differences cause the government policies of wealthy nations with abundant natural resources to fluctuate. Every administration wants to present its policies that set it apart from the one before it, especially when it comes to identifying its own agenda that will be extremely different from everyone else's. According to Matthias (2005), the economic fallout from booms and busts may not be the primary cause of underperformance in the economy. Rather, government ineffective policy responses may be more significant.

16. Political instability: Here, resource-rich nations employ a variety of political systems, from military rule to democratic elections for head of state positions. This has an impact on the nation's growth performance. Potential investors in nations with fragile political systems are likewise alarmed by it.

17. Ethnic Conflict: It's a common feature in Africa among ethnic groups. Africa is subject to a variety of crises, including political instability, religion, tribalism, and sectionalism, which claim lives and property worth billions of dollars each year. This has a significant impact on the economic performance of such countries. For example, consider a civil war for ownership.

18. Greed: Because of our unfulfilled desires in Africa, nobody is happy with what they have. We do have enough to satiate our greed as well as enough to satisfy us. This is an African proverb.

19. Monopoly Ownership: The majority of the owners of rich natural resources are people with ties to the national government. For example, Nigeria's ruling class firmly owns the country's oil block. Simple wealth breeds sloth: a non-economic defense. However, the notion those wealthy nations with easy access to resources are less motivated to put in effort and foster cultural development.

20. Absence of Developmental strategy: The majority of these less developed nations, such as Nigeria, lack a strategy for development that would be followed in order to accomplish desired outcomes.

21. Dutch Disease and Crowding Out: According to the UNDP, the Dutch disease is an economic phenomenon whereby a country's economy becomes less industrialized as a result of natural resource discoveries and exploration.

Solutions for Resource Curse

1. Complete Industrialization of the Sector: African nations endowed with abundant natural resources ought to transition from extractive industries to a fully industrialized economy, given that developing nations account for the majority of resource users and consume a large portion of the final output. Because the products are highly consumed in Africa and the continent lacks the capacity and technology to generate the raw materials needed to finish the product, rich African countries can break free from this curse by fully engaging in the secondary production stage.

2. Expand anti-corruption measures: Africa's resource-rich countries lack functional corruption prevention organs to combat corruption in the sector, such as oil theft, bunkering, and international racketeering. In Nigeria, the Economic and Financial Crimes Commission (EFCC) was established to combat some of the country's financial and economic crime. Due to harsh practices, Buhari banned 113 oil boats from lifting crude oil from Nigeria in July 2015. 48 million barrels of stolen crude were found in multiple tank farms in China.

3. Debt Management Issue: high income is utilized to service debt with high interest rates in foreign currencies like the dollar and pound sterling. The massive debt portfolio of all these rich resource countries is affecting the degree of growth.

4. Cartel Effect: Because of the conditions in the African continent, some of these nations have established organizations through which they can obtain low-interest loans. However, certain ones of these countries are part of cartels like OPEC, which control the world's supply and demand for their resources.

5. Multi-National Cooperation Effect: The government of resource-rich countries to states outlines the cost benefit analysis of the multinational in the exploration of the resource before signing the contract of the partnership. Most time the partnership agreement is properly check before embarking on the production.

6. Diversification of The Economy: The problem of over dependency on mono resource-rich is the factor that affects the growth of the countries with resources rich in Africa. Their resources are also used as the bench mark for their financial budget with any slight changes in the changes, the entire budget of the country which affect the economy growth of these resources-rich countries.

7. Ethnic Conflict Management: Which is the major factor hindering the growth of these countries. This give room for the agitation of resource control in the resource-rich areas of the country. Such as the emancipation of Niger-delta people movement in the Nigeria.

8. Lack of Developmental Plans: The majority of the country lacks developmental plans, which are goals, intended to be achieved over time. Even when there is a developmental plan in place, political instability affects the outcome of the goal.

9. Impact of Monopoly Ownership: A significant capital investment was needed for the majority of these resources. Few companies possess the necessary finance and technology to operate in this industry, as the resource-rich nation lacks the funds to explore its crucial natural riches. In order to generate perfect competition in the market and decide the actual amount to invest in the firm, the government should open up avenues for other investors to enter the market. Thus, monopolistic exploration will have a lessening effect and allow for greater transparency in the industry.

10. Minimize Resource exchange: In the resource-rich countries of Africa, resource exchange is a significant part of debt settlement. Because these have an impact on the terms of commerce between the trading nations and the less developed African countries, they are harmful for them. Any emerging nation in the globe experiences a negative impact on its growth when debt is settled with resources.

11. The NEITI blamed the losses on the government's failure to embrace oil fingerprinting technology, the lack of comprehensive metering infrastructure at all oil facilities, and other creative strategies to combat the growing menace of crude oil and refined product theft in Nigeria.

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