

# NIGERIA: POLICY PRIORITIES TO UNLOCK GROWTH POTENTIAL

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**T**he Nigerian economy has great potential for growth and structural change. Over the last decade, the economy grew at an average annual rate of more than 6 percent. Yet, even with such positive growth rates, the country's performance is far below its potential. The agricultural sector continues to dominate the Nigerian economy, employing 70 percent of the country's labor force and accounting for 40 percent of GDP. The manufacturing sector has by and large stagnated since the late 1990s and contributes only 4 percent of GDP. Another important sector is the oil industry; while it contributes nearly 95 percent of total foreign exchange and 70 percent of total revenue, Nigeria's oil industry accounts for a low share of the country's GDP—only 16 percent in 2010. Nigeria faces many challenges, the most pressing of which include corruption and poor management of the oil sector. In 2012, Nigerian policymakers must prioritize these issues as key to unlocking the country's growth potential.

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## Tackling Corruption

Corruption is pervasive across all sectors in Nigeria. Some estimates suggest that between 2000 and 2008, Nigeria lost \$130 billion in illicit financial outflows (Kar and Curcio, 2011). This is significantly more than the estimated \$20 billion in official development assistance Nigeria received from all Organization for Economic Cooperation and Development (OECD) countries during the same period. Nigeria is ranked 143 out of 182 in the 2011 Corruption Perceptions Index and the high prevalence of corruption imposes a huge burden on business and thus limits the flow of investment to the country beyond the high margin oil industry. Additionally, Nigeria is plagued by both grand and petty corruption, with studies confirming that 50 percent of all drugs sold in Nigerian drugstores in the 1990s were counterfeit (Akunyili, 2005). This has devastating consequences for health outcomes in the country. In short, all aspects of life in Nigeria are directly affected by corruption.



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It is also widely acknowledged that corruption is probably the single most important barrier to the realization of Nigeria's great productive potential. Despite government rhetoric, the purported war against corruption has yielded no significant result in abating the problem. In 2012, the anti-corruption agencies should come under increased scrutiny and there should be increased demand for reform in the judicial system to ensure that corruption is genuinely punished. Progressively more Nigerians are expressing dissatisfaction and the country is likely to witness growing demands for fairness and a more equitable distribution of the country's resources, especially among minority groups. It is therefore important that Nigerian policymakers prioritize fighting corruption to ensure these demands can be met. Nigeria's new president, Goodluck Jonathan, must fulfill the election promises he made in 2011 to launch an effective anti-corruption campaign in 2012.

### **Better Management of Oil Resources**

A 2007 article in *The Economist* posed the question as to whether oil sector reform is possible in a country where corruption prevails in all aspects of life. This article suggested that reforming Nigeria's oils sector was feasible but would require significant commitment and political will from the Nigerian government. Despite the much needed reforms outlined in the 2009 Petroleum Industry Bill, the Nigerian oil industry continues to be plagued by corruption, mismanagement and inefficiency. The awarding of oil licenses and contracts lacks transparency and effective oversight. Oil companies are also often faced with delays and inefficiencies when dealing with regulatory government institutions. Theft and mismanagement of oil revenues exacerbate the flow of illicit funds in Nigeria and limit the industry's potential to promote development.

In 2012, policymakers should prioritize reforms that increase transparency and oversight in the oil sector as well as increase the efficiency of the Nigerian National Petroleum Corporation and especially the Department of Petroleum Resources tasked with regulating the oil industry. At present, Nigerians are embroiled in a debate over the removal of the fuel import subsidy. With better management of oil resources and efficient oversight of the industry, Nigeria should be able to translate its vast oil wealth into development gains for its people and hence eliminate the need for a subsidy.



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