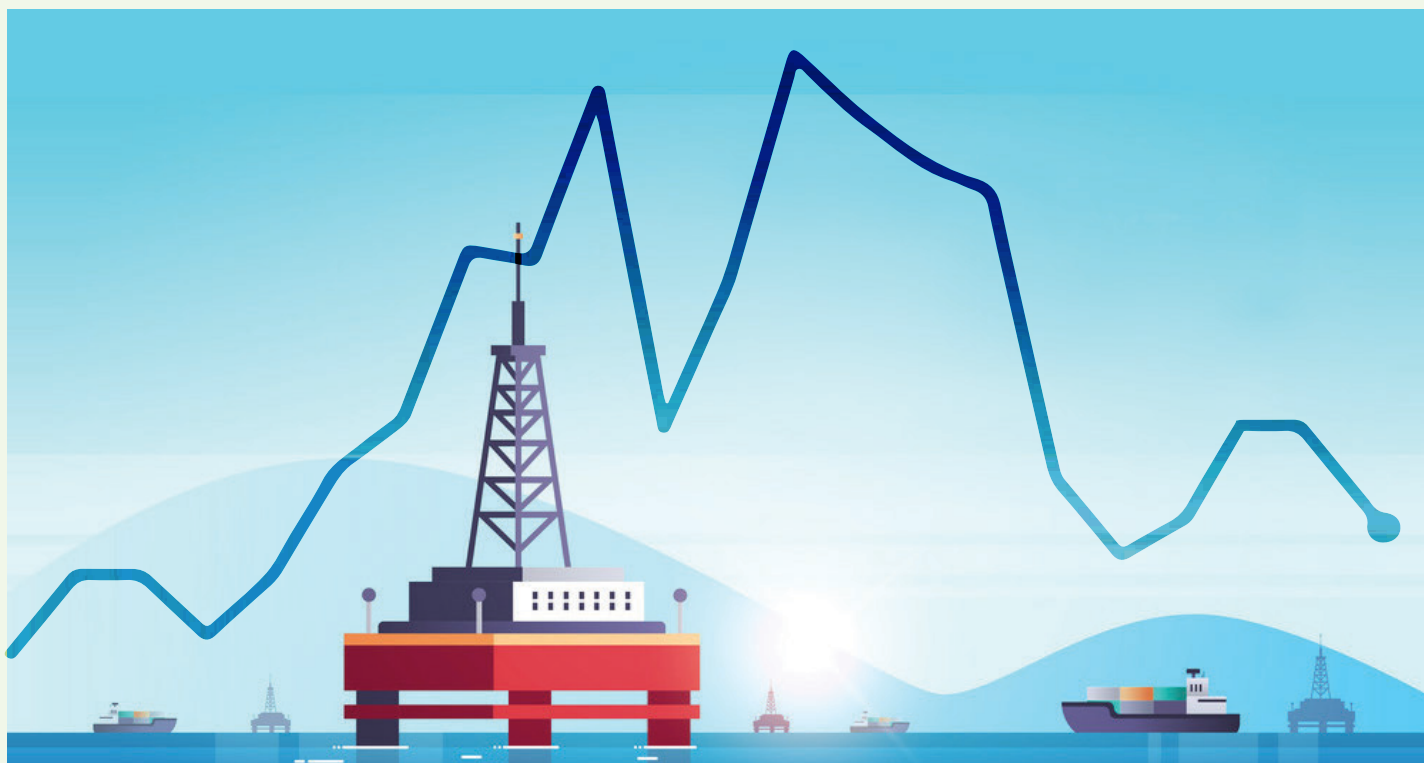




Insulating Nigeria from Perennial Oil Price Volatility

Price volatility is a constant feature of the oil market, exposing oil-dependent countries like Nigeria to regular economic crises when oil prices tumble. Beyond surviving the latest oil price slump largely occasioned by COVID-19, Nigeria needs a sustainable strategy for coping with oil price shocks.

THE 2019 corona virus disease (COVID-19) has thrown most countries into the throes of sudden and multiple crises. What started as a health concern in a corner of China late last year has not only spread quickly across the globe but has also triggered a global lockdown and economic crunch, leaving even the most resilient countries gasping for breath from the combined headwinds. While it is difficult to fully prepare for such double whammies, the COVID-19 pandemic has also exposed the inherent economic vulnerabilities of resource-dependent countries like Nigeria.

With still relatively low infection and fatality rates, Nigeria seems to be holding up fairly well with the health burden of COVID-19. However, the pandemic has put Nigeria's public finances, and by extension its economy, in dire straits, direr than could have been projected a year or even six months ago. This is largely on account of the sudden slump in oil prices, caused by the collapse in oil demand as countries imposed lockdowns and scrambled to contain the crisis, and Nigeria's continued exposure to oil revenues.



"Whether oil prices recover quickly or slowly, the next oil price crash is a matter of when, not if. The time to prepare for that is now."

Though the dependence on oil is reducing, oil still accounts for about 50% of government revenues and over 80% of exports and foreign earnings. This still makes Nigeria highly vulnerable to oil price shocks, which occur with much regularity and could be caused by a myriad of exogenous factors, including, as this case shows, a tiny but deadly virus that started from halfway across the world. When combined with the absence of a strong fiscal cover, the precipitous fall in oil prices always guarantees revenue and economic crisis for the country. This needs to be reversed.

To be sure, the Federal Government (FG) has moved swiftly to address the economic impact of COVID-19. The 2020 Budget has been revised, with cuts in capital and recurrent expenditures and fresh allocations aimed at containing the pandemic and boosting economic activities. Revenue projections and oil price and production benchmarks have been slashed. The country has taken a \$3.4 billion emergency facility from the International Monetary Fund (IMF) and is withdrawing \$150m from the stabilization fund of the Nigerian Sovereign Investment Authority (NSIA). Subsidy or under-recovery on petroleum products has been halted and the exchange rate has been adjusted from N305/\$1 to N360/N1. Also, the government has approved and unveiled the N2.3 trillion Economic Sustainability Plan, developed by a committee headed by the Vice President, Professor Yemi Osinbajo, and designed to address the various economic dimensions of the pandemic.

These are all necessary and commendable steps, which should help in minimizing the economic impact of this immediate crisis. However, there is need to look beyond surviving this latest episode of a lingering malaise. It is important to use this crisis to significantly reduce Nigeria's vulnerability to regular oil price shocks and also emplace a framework for robust fiscal cover.

Oil prices are gradually looking north again: between April 2020 and June 2020, oil prices increased by 114%, from \$18.38/barrel to \$39.42/barrel. As more countries ease or end lockdowns and return to a semblance of normalcy, the demand for and the price of oil are projected to increase. This will give Nigeria and other oil-dependent countries more fiscal wriggle room. But this could distract from the important work of ensuring that resource abundance does not create a dependence and a distortion that always make Nigeria vulnerable to fall in prices that it has little or no control over. Getting distracted or opting to just muddle through will amount to work avoidance. Whether oil prices recover quickly or slowly, the next oil price crash is a matter of when, not if. The time to prepare for that is now.

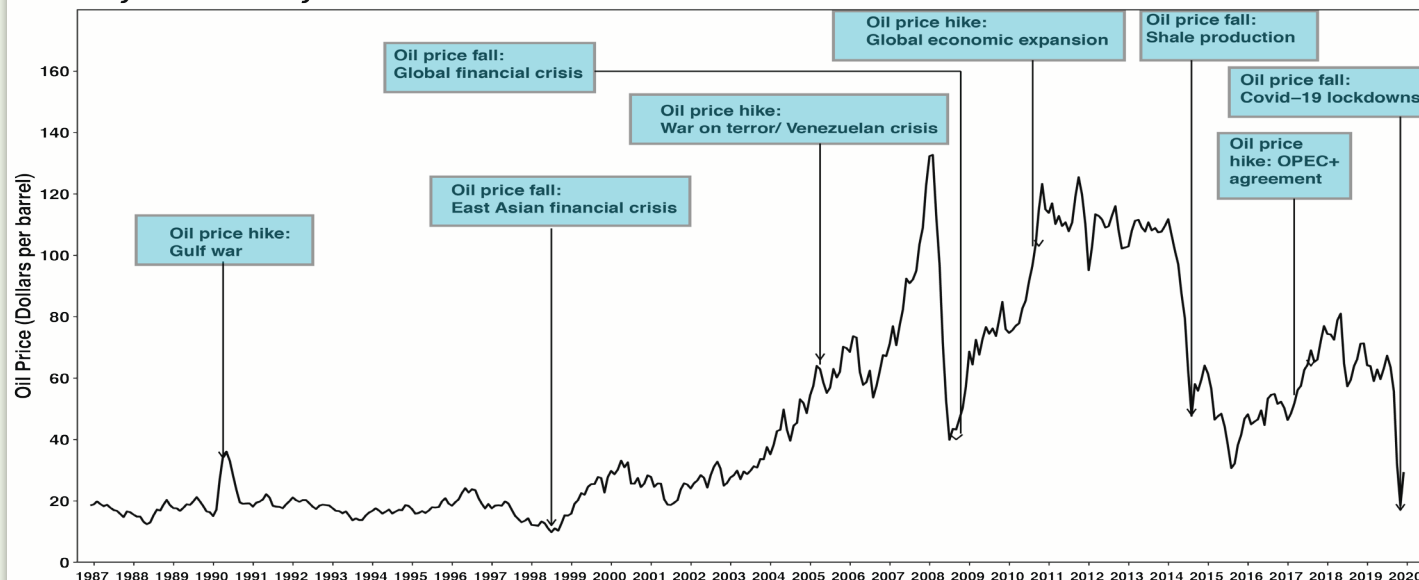
\$39.42/barrel
June 2020



\$18.38/barrel
April 2020

"Though the dependence on oil is reducing, oil still accounts for about 50% of government revenues and over 80% of export earnings. This still makes Nigeria highly vulnerable to oil price shocks, which occur with much regularity."



FIG 1: Price of Oil – Brent (Dollars per barrel)*May 1987 to May 2020*

The Predictable and Perennial Volatility of Oil Prices

Oil prices have been falling since January 2020, with a particularly steep decline from March. While average oil prices were \$64.35 per barrel in 2019, the average price from January 2, 2020 to June 2, 2020 was \$40.16 per barrel. These averages mask the actual fluctuation in daily prices. The lowest oil price recorded in 2019 was \$53.23 per barrel on January 3, 2019. On the other hand, prices have been as low as \$9.11 per barrel in 2020 (April 21). Such drastic changes in oil prices is symptomatic of the global oil market, characterized by the famous boom-bust cycles, with periods of relatively stable prices followed by either rapid spikes or rapid declines in prices.

Figure 1 presents the trend of oil prices from May 1987 to May 2020. The figure shows that oil prices were relatively stable until the onset of the Gulf War I. Oil prices started rising in 1990 and reached a peak of \$35.92 per barrel in October 1990. Keeping with the volatile behaviour, oil prices started falling and dropped briefly below \$20 per barrel in March 1991. Following this, oil prices were in the range of \$18 to \$22 per barrel, but dipped to \$14.51 per barrel in December 1993. Subsequently, oil prices remained below \$20 per barrel until March 1996. From April 1996, oil prices were between \$18 and \$22 per barrel. The onset of the East Asian financial crisis brought in a crash in oil prices, with prices reaching a low of \$11.28 per barrel in December 1998. After the crisis, oil prices started rising again and by January 2003, they were above \$30 per barrel. This increase in prices continued and oil prices were above \$100 per barrel in March 2008. They remained above \$100 for seven months, peaking at \$147 per barrel in July 2008. Oil prices fell sharply from October 2008 as a result of the global financial crisis and reached \$39.16 per barrel in February 2009.

Thereafter, oil prices started rising again and crossed the \$100 per barrel mark in March 2011. Another period of oil price collapse started in late 2014. Following increased production from shale producers, oil prices fell from \$103.59 per barrel in July 2014 to \$59.29 per barrel in December 2014. This decline continued and prices reached a trough of \$30.32 per barrel in February 2016. Oil prices increased and



“There is need to look beyond surviving this latest episode of a lingering malaise. It is important to use this crisis to significantly reduce Nigeria’s vulnerability to regular oil price shocks and also emplace a framework for robust fiscal cover.”

¹ Exceptions were in November & December 2001, and January 2002 when they were \$19 per barrel

were above \$50 per barrel between 2018 and 2019.

Heralded by the price war between Saudi Arabia and Russia, the onset of the COVID-19 pandemic has ushered in a new era in volatility in oil prices. Oil prices declined from \$67.04 per barrel on January 2, 2020 to \$37.71 per barrel on June 2, 2020, a 44% fall.

Nigeria's Unhealthy Dependence on Crude Oil

Countries that are heavily reliant on commodity exports for the bulk of their government revenue and foreign exchange earnings are particularly susceptible to the vagaries of international commodity markets. Thus, Nigeria, where oil earnings have accounted for a large share of foreign exchange earnings and where oil revenue constitutes the bulk of government revenue has been at the mercy of oil market volatilities for over four decades. Figure 2 presents oil revenue expressed as a percentage of total federation revenue over the period 1981 to 2018. The figure shows that oil revenue has constituted the lion's share of federation revenue over time. In 1981, oil revenue was 64.44% of total revenue. In 2018, oil revenue was 58.06% of total revenue. The figure shows that from 1988 to 2013, oil revenue consistently made up over 70% of total revenue. The only exceptions were in 1998 (69.95%) and 2009 (65.89%). For some years such as 1992, 2004, 2005, 2006, oil revenue constituted over 85% of total revenue. It is only in recent years (2015 – 2018) that oil revenue was below 60% of total revenue. This can be attributed to low oil prices and increased efforts to boost non-oil revenue.

Figure 2: Oil Revenue as a Percentage of Total Federation Revenue (%)

1981 to 2018

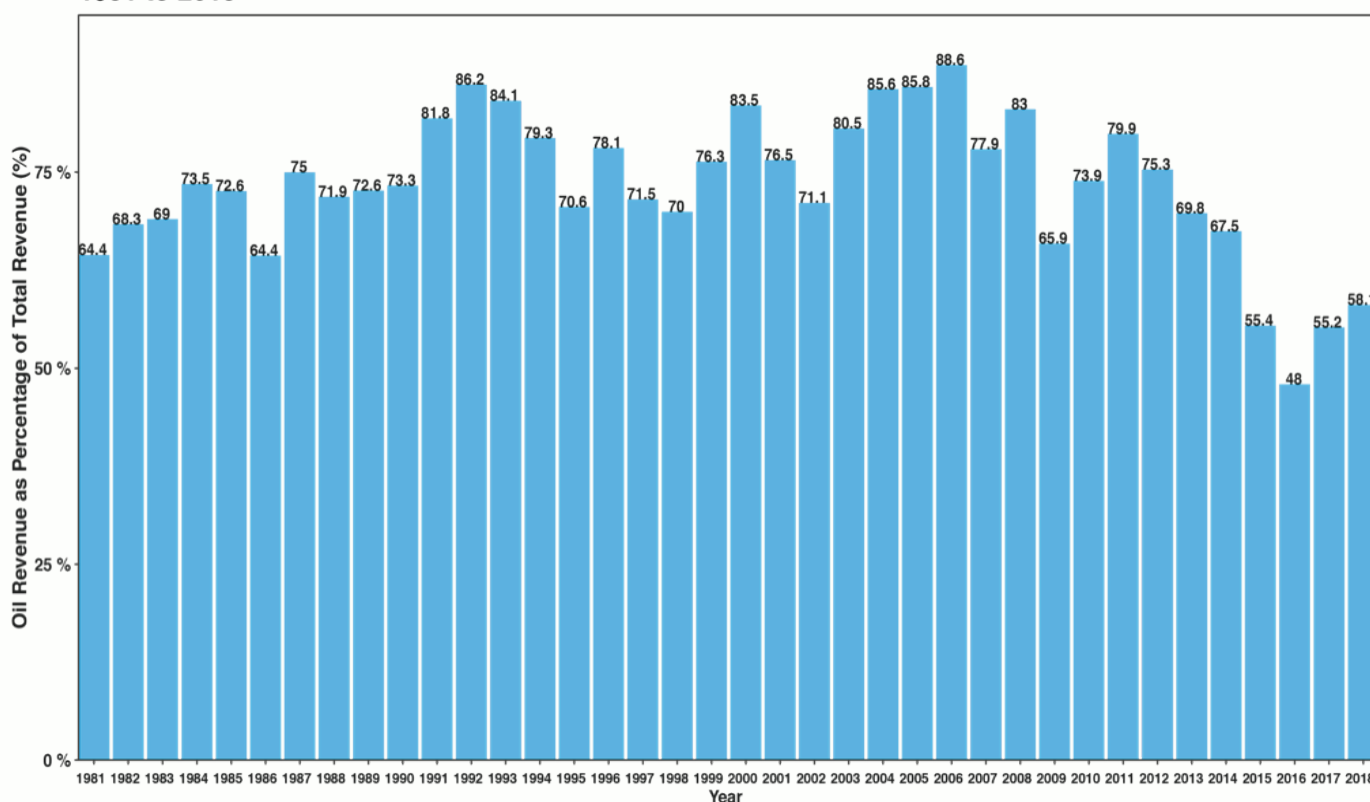


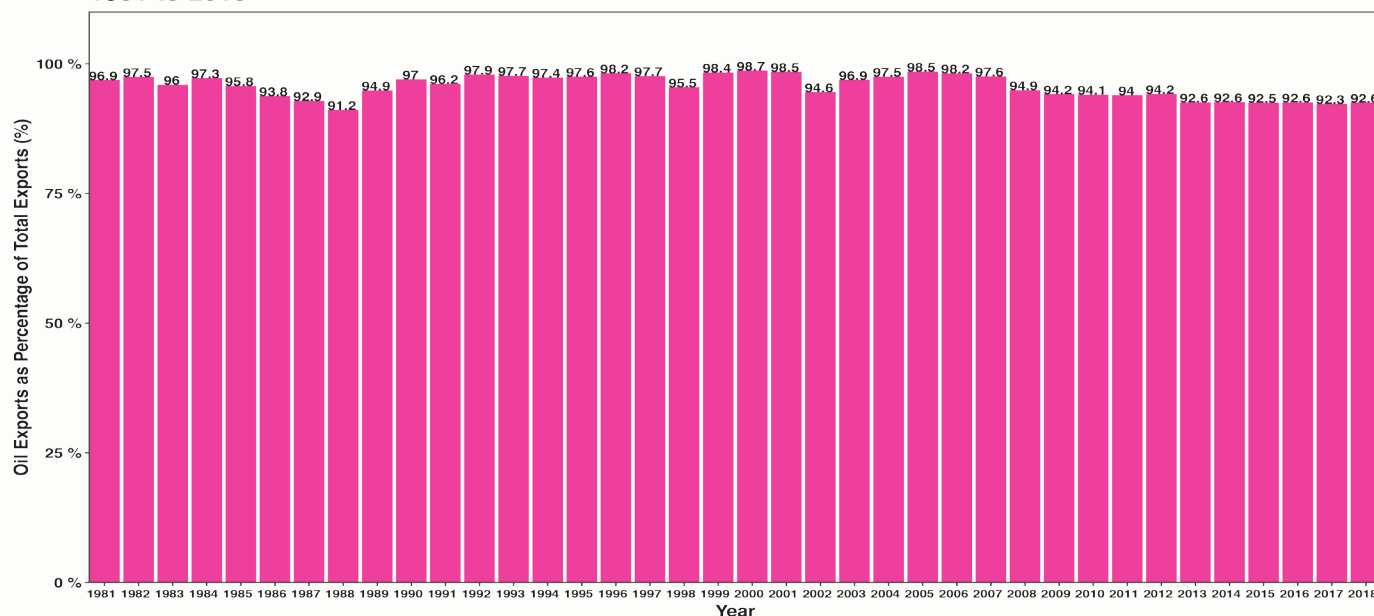
Figure 3: Oil Exports Revenue as a % of Total Exports Revenue (%)*1981 to 2018*

Figure 3 presents revenue from oil exports as a percentage of total export revenue. The figure reveals that oil export revenue has consistently contributed over 90% of total exports revenue. This shows how dominant the oil sector is for generation of foreign exchange.

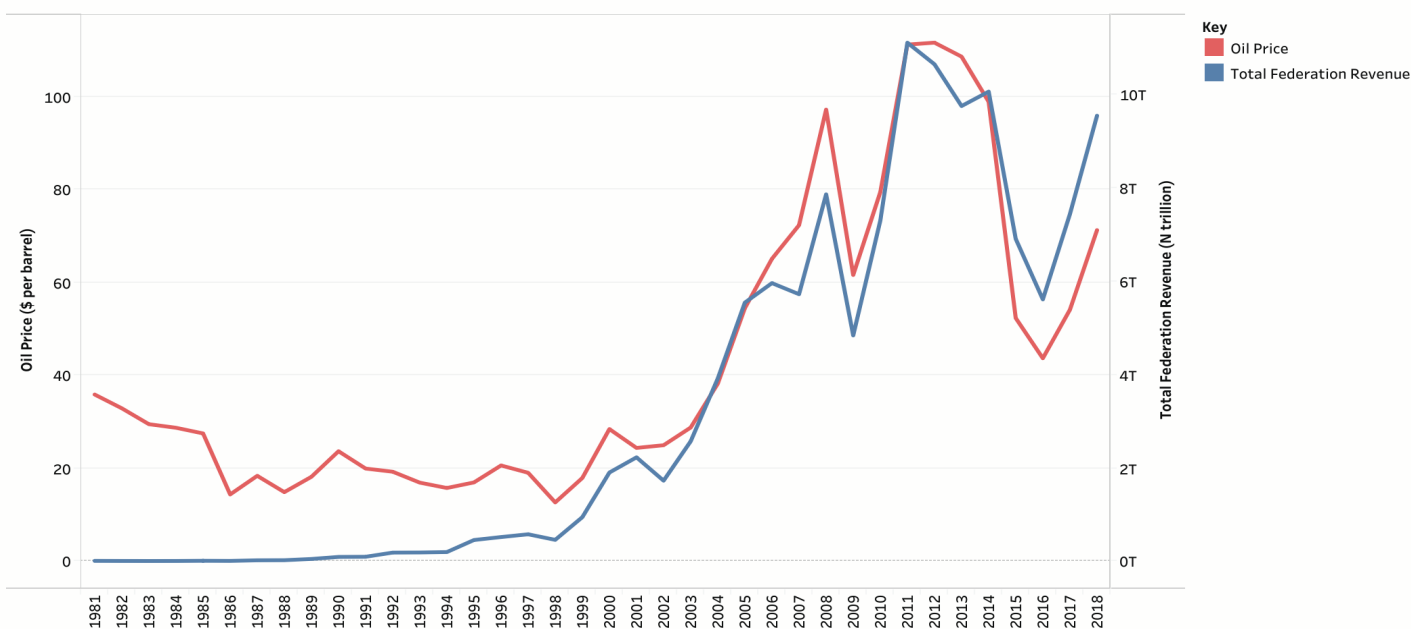
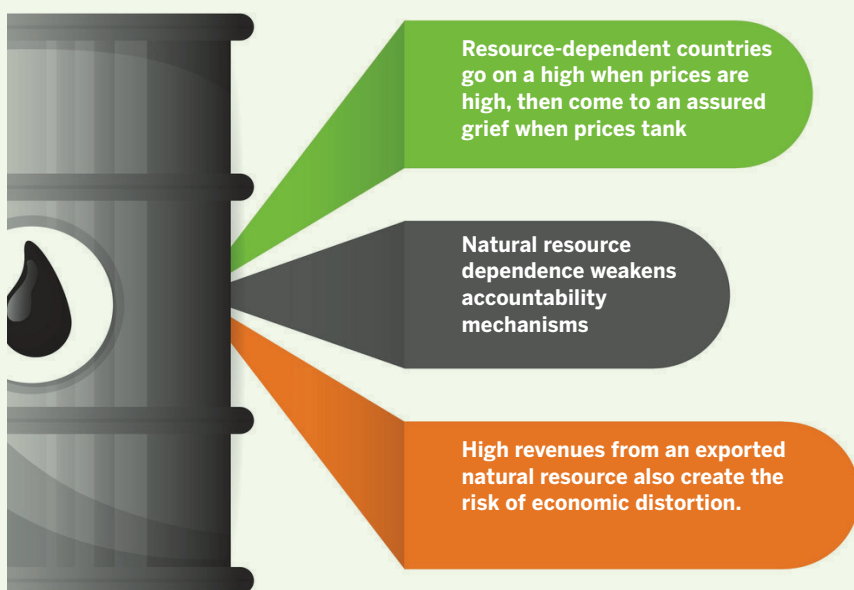
Figure 4: Total Federation Revenue and Oil Price
1981 to 2018

Figure 4 presents oil prices and total federally collected revenue over the period 1981 to 2018. A close relationship can be seen between oil prices and federation revenue. Thus, generally, as oil prices rise, federation revenue rises; and as oil prices fall, federation revenue falls. This figure shows clearly the very strong relationship between oil prices and government revenue.

Dangers of Natural Resource Dependence

Resource-intensive countries, like Nigeria, are prone to a number of obvious and non-obvious risks. The first risk is from the well-known volatility of commodity prices, which in most instances leads to regular fluctuation in the fortunes of such countries. Ordinarily such countries should save in period of high prices in anticipation of a price slump. But they rarely do so. In actual fact, resource-dependent countries go on a high when prices are high, then come to an assured grief when prices tank. With high prices and steady flow of cash providing an illusion of prosperity, decision makers of resource-rich countries usually increase government expenditures and make other choices that cannot be sustained by low commodity prices. In addition, natural resource dependence weakens accountability mechanisms, as extractive states (as opposed to tax states) are inclined to white-elephant projects, leakages, state capture, and graft.

High revenues from an exported natural resource also create the risk of economic distortion. This is the famous Dutch Disease, where sudden influx of foreign exchange in boom periods leads to over-valuation of the local currency and turns the economy to a high-cost one. This leads to a situation where the natural resource eventually becomes the sole or dominant export and main source of foreign exchange by crowding out other sectors such as agriculture, manufacturing and services. It also leads to a situation where those sectors cannot even compete locally and it is cheaper to import goods and services than to produce them locally, which then turns the country to an import-dependent one.



"Ordinarily resource-rich countries should save in period of high prices in anticipation of a price slump. But they rarely do so. In actual fact, resource-dependent countries go on a high when prices are high, then come to an assured grief when prices tank."

The danger of this double dependence (revenue-dependence and import-dependence) is masked in periods of high commodity prices. But when prices of commodities plunge, resource-dependent countries (except those that save enough during high prices) hardly have enough revenues to fund their budgets and enough foreign exchange/reserves to feed their huge appetite for imports. This inexorably leads to a cocktail of challenges such as balance of payment problems, currency devaluation, cost-push inflation (since most things are imported, including intermediate goods), and economic contraction. This is a recurring pattern that has led to postulation about natural resources being more of a curse than a blessing to countries richly endowed with them.

But the experiences of countries like Norway, UAE and Botswana have shown that resource curse is not destiny and plenty doesn't have to be accompanied by a paradox. These positive outliers have shown that a different path is possible. So rather than just muddle through the crisis of another oil price crash then wait for another time to go through the same enervating cycle, Nigeria can and should make a conscious effort of throwing away the yoke of being eternally vulnerable to oil price slump.

Pathways out of the Bind

This brief explores and advocates three ways of insulating Nigeria from this predictable but perennial challenge. The recommended pathways are: having a robust 'rainy day' fund; weaning Nigeria off its unhealthy dependence on oil; and getting more from the oil and gas sector to aid development of other revenue and export streams.



1. Maintain a robust 'rainy day' fund

A healthy minerals savings fund, the size of which should reflect not only the volume of revenues from mineral resources, but also the size of the national economy, is usually recommended for resource-rich countries for three reasons: to smoothen revenue over the life of the natural resource, a form of a hedge against the well-known boom-bust cycle; to keep a substantial part of the windfalls out of the budget as a form of insulation against the distortion of the Dutch Disease; and to prepare for the eventual depletion or loss of value of the natural resource and keep part of the accrued benefits for the future generation, as a form of inter-generational equity. The good news is that Nigeria seems sold on these arguments already; for the country actually has three forms of oil savings funds. The not-so-good news is that the funds are mostly not adequately ring-fenced, and are too tiny to adequately serve the intended purpose.

Nigeria established its first stabilisation fund, the 0.5% Stabilisation Fund, in 1989. In 2003, the country established the Excess Crude Account (ECA). A third fund, the Nigeria Sovereign Investment Authority (NSIA), was established in 2011. All three accounts are currently operational. Today, these three accounts cumulatively have about \$2.25 billion, which can only fund about 7.7% of the revised 2020 federal budget. The entire money is not available anyway and it belongs to the three tiers of government, not just to the FG. As part of the response to the negative impact of falling oil prices on its revenue, the government is withdrawing \$150m from the stabilisation component of NSIA to supplement federation allocation. By contrast, Norway (a country of 5.3 million people) has a sovereign wealth fund worth more than \$1 trillion. The Scandinavian country is withdrawing \$37b (382 Kroner) or less than 4% of its hefty savings to fund its 2020 budget. That \$37b is at least 25% higher than FG's N10.5trillion 2020 budget.

For a time like this, Nigeria needs the kind of insurance cover that can come from a robust savings fund. But such a cover can only be erected in moments of plenty. Even when backed by law, the 0.5% stabilisation fund is too tiny to make much difference. The ECA, where earnings above oil price benchmark are parked, could have served because it receives reasonable inflows but it is easily depleted because it is a political arrangement without legal protection. It operates more like an expenditure account than a savings account. According to a 2017 NEITI study, the ECA had total inflow of \$201.2b and a total outflow of \$204.7b between 2005 and 2015 (outflow was 102% of inflow). The NSIA is the only proper savings fund because it is invested, generates returns on investment and has strict conditions for drawdowns. It also takes care of present and future needs and has inbuilt flexibility to address the country's challenges. Its funds are currently split into three: Stabilisation Fund, 20%; Infrastructure Fund, 40%; and Future Fund, 40%. Unfortunately, the NSIA has about \$2b, and is one of the smallest sovereign wealth funds in the world.



"Rather than just muddle through the crisis of another oil price crash then wait for another time to go through the same enervating cycle, Nigeria can and should make a conscious effort of throwing away the yoke of being eternally vulnerable to oil price slump."

To be sure, there are practical challenges to achieving and maintaining a healthy oil savings fund for Nigeria. The key impediments are fundamental: a constitutional constraint and the difficulty in achieving centralised savings in a regime of fiscal federalism. To sustainably address the challenges standing between Nigeria and a healthy savings fund that can insulate the country against perennial oil price volatility, this brief recommends the following:



Amending Section 162 (1) of the 1999 Constitution to allow for part of oil earnings to be saved. This will need collaboration and consensus not only between the executive and legislative arms of government but also among the three tiers of government and the ;



Abolishing the 0.5% stabilisation fund and the ECA then transferring the balance in those accounts to the NSIA;



Abolishing the Oil Price-based Fiscal Rule (OPFR) where revenue in excess of oil price benchmark is saved then replace it with mandatory saving of a percentage of daily oil production. Norway saves all its oil money while Angola saves proceeds from 10% of its daily production. This is a good practice that ensures savings at all times, whether prices are high or low. At this stage of its development and based on its current needs, Nigeria cannot do like Norway but it can be like Angola and save proceeds of between 5% and 20% of its daily oil production. With this, Nigeria could easily save between \$1b and \$3b every year even in period of low oil prices. Abolishing the OPFR also removes the constant political jousting about oil benchmark price and quantity.



Transferring the proceeds from the percentage of daily oil production to NSIA to invest mostly in easily convertible instruments.



Increasing the NSIA's stabilisation fund from 20% to 40% and sharing dividends from NSIA's earnings every year. This should be done by the board of the NSIA, and should be in line with Section 31 of the NSIA Act 2011. Increasing NSIA's stabilisation fund (the portion available for budget supplementation) and sharing dividends from investment will give comfort to states and LGs to support constitutional amendment and the scrapping of ECA. Instead of just sitting in ECA, the fund will be invested to generate other streams of income for the federation. An increased stabilisation fund should also provide the additional reassurance about adequacy of funds that can be used for stabilisation when prices fall.

"Norway is withdrawing \$37b (382 Kroner) or less than 4% of its hefty savings to fund its 2020 budget. That \$37b is at least 25% higher than FG's N10.5trillion 2020 budget."



2. Reduce dependence on oil for revenue and export

In recent times, government has done a lot to reduce its overwhelming dependence on oil for revenues. In 2019, the contribution of oil to total government revenues was 58.1%, as against 88.6% in 2006. This is remarkable progress. But more needs to be done and quickly too. Revenue volatility will continue as long as government depends on a product given to price volatility for half of its revenues. In terms of exports, oil still accounts for more than 80% of export earnings. This level of exposure has implication not only for foreign exchange earnings but also for the capacity to fund imports, the value of the national currency and price stability. It is therefore imperative to further boost non-oil revenue and increase non-oil export. The following are recommended:



Increase revenues from taxes and tariffs: Among others, the Finance Act 2020 reduced Corporate Income Tax (CIT) to 20% and raised Value Added Tax (VAT) to 7.5%. This is a bold step that should simultaneously reduce the tax burden on companies and increase government revenue. It is important to further streamline the tax code, expand the tax base and improve collection efficiency. At 7.5%, Nigeria's VAT is still among the lowest, even in Africa. Nigeria's tax-to-GDP ratio is about 6%, compared to the 19% average for Sub-Sahara Africa. To significantly increase government revenue from taxes, there must be conscious and improved efforts to bring more Nigerians within the tax net. Especially for those in the informal sector, a low rate-wide base and innovative collection strategy will be recommended. It will also be very important to close loopholes in, as well as simplify, the tax code, and reduce exemptions and improve collection rate. In similar vein, making tariffs more competitive and improving collection rate will be needed.



Boost Non-Oil Exports: According to CBN data, the value of Nigeria's non-oil exports increased from \$4.6b in 2018 to \$10.4b in 2019, bumping non-oil export to 16% of total exports (\$64.9b) in 2019. This is a good pointer to what is feasible. It will be important to further diversify sources of exports and foreign exchange earnings by boosting not just raw but processed agricultural and solid minerals exports, fast-tracking the export processing zones and providing reasonable incentives to attract investors to them, and introducing fiscal, monetary and industrial policies that will make the country competitive for direct and portfolio investments.



"Even as Nigeria urgently needs to diversify government revenue and exports, it is clear that it can still make much more from the oil and gas sector both address the revenue needs of the country and to invest in diversification"



3. Correct Distortions to Economic Structure

Resource dependence is known to create distortions to the economic structure of resource-endowed countries. As stated earlier, such countries become high-cost economies where traditional sectors such as agriculture and manufacturing are crowded out and become so uncompetitive that they struggle to meet local needs, making imports cheaper and preferable. Over time, the Nigerian government (especially the current administration) has done quite a bit to correct some of these distortions, but much more needs to be done to reduce dependence on imports, and ensure that the agricultural, manufacturing and services sectors can compete and meet both domestic and export needs. Recommended prescriptions here will include ensuring macro-economic stability, further improving on the ease of doing business, investing more in physical and human infrastructure which should reduce the cost of doing business, and implementing a suite of incentives and reforms to attract foreign and local investors in areas where Nigeria should have comparative advantage such as agriculture and agro-processing, petroleum refining, solid mineral extraction and beneficiation, light manufacturing and services.



4. Block Leakages and Maximise Opportunities in Oil and Gas Sector

Even as Nigeria urgently needs to diversify government revenue and exports, it is clear that it can still make much more from the oil and gas sector both to address the revenue needs of the country and to invest in diversification. Blocking leakages and maximising opportunities in the sector will help in increasing government revenues and the contribution of the sector to national productivity. Areas needing urgent attention in this area include the following:



Eliminate theft of crude oil and refined products: Nigeria loses its crude oil and refined petroleum products at close to an industrial scale. A 2019 policy brief by NEITI showed that Nigeria lost at least \$41.9b to theft of its crude oil and refined products over a ten-year period (2009 to 2018). This translates to a \$4.19b yearly average. Apart from the financial haemorrhage, the losses from theft and vandalism also have negative implications for the environment, for livelihoods, and for national security. Over time, there have been efforts to tackle this menace through law-enforcement, community engagements, and other measures. But the losses continue because of the inherent weakness of these measures. From the NEITI policy brief and the policy dialogue that followed, a number of recommendations were made and are still worth pursuing. They include the need to:

“Nigeria has more gas than oil, with the country usually described as a gas province with some oil. With a proven reserve of 200.7tcf as at 2018, Nigeria has the highest gas reserves in Africa and the ninth highest in the world.”

- Strengthen and strictly enforce laws against crude oil and product theft;
- Improve and streamline the governance of the security architecture for combatting crude oil theft in the immediate, then set up a specialised, well-trained and well-equipped oil assets protection force;
- Give communities greater stakes in protection of oil assets;
- Rally the world to impose heavy sanctions on trade in stolen crude oil, as is done for blood diamond through the Kimberly Process.
- Leverage technology to detect leaks, checkmate theft and track stolen crude.



Embrace Full Deregulation of the Downstream Sector: As part of the responses to COVID-19 and the sharp fall in oil prices, the Federal Government has removed subsidy or under-recovery on petrol, which cost the country N9.8 trillion between 2006 and 2018. This is a very commendable step that will ensure savings and availability of scarce resources for more impactful areas. It will also help curb the corruption and smuggling associated with petroleum subsidies. But to prevent a roll-back when oil prices rise again and to reap the full benefits, full deregulation of the downstream sector will be recommended. Government should embrace full deregulation and concentrate more on quality assurance and consumer protection. Also recommended are: a level-playing field for all operators, including NNPC; a single regulator for the downstream sector; and more deliberate strategy for boosting local refining capacity so as to reduce the pressure on external reserves from importation of refined products and position Nigeria to meet the refining needs of the sub-region.



Boost Gas Production and Utilisation: Nigeria has more gas than oil, with the country usually described as a gas province with some oil. With a proven reserve of 200.7tcf as at 2018, Nigeria has the highest gas reserves in Africa and the ninth highest in the world. However, the oil and gas sector in Nigeria has been more skewed towards oil than gas. This neglect is despite the fact that gas has enormous versatility and utility as a driver of industrialisation and social-economic development. It can be transported wet or dry over long distance through pipelines and can be liquefied/compressed in specialised carriers (cylinders and tankers). It is the safest and most efficient hydro-carbon for power generation; it can be used in vehicles and other heavy machineries and is used in petrochemicals (fertiliser and pharmaceuticals). By not fully developing her gas sector, Nigeria has robbed itself not just of vital revenues but also of the opportunity to create jobs through the gas value-chain and to address her great challenges with electricity and industrialisation. The development of the gas sector had been hobbled by lack of clear policies, infrastructure, and fiscal regime. Thankfully, this is changing. The policy aspect has been addressed by the 2008 Gas Masterplan and the 2017 Nigerian Gas Policy. The Nigeria LNG has been more than a successful proof of concept, which has spurred the development of the Brass NLG, the OKLNG and others. The National Gas Flare Commercialisation Programme is designed to tackle the twin challenge of environmental pollution and monetisation of associated gas. Some critical gas infrastructure projects are in the works, especially the Obiafu-Obrikom-Oben (OB3) gas pipeline project and the Ajaokuta-Kaduna-Kano (AKK) gas pipeline project, whose construction was flagged off on 30 June 2020 by President Muhammadu Buhari. To fully optimise Nigeria's gas potentials, government will need to conclude these critical infrastructure projects and have clear and competitive fiscal regime and incentives.



"The virus will eventually be tamed. Oil prices will go up again. So the pain of the moment shall pass. But the next slump in oil prices is not a matter of if but when."



Fast-track Passage of PIB(s): Nigeria commenced the process to have an overarching law for the petroleum sector in the year 2000, though the first bill was introduced in 2008. Five presidential and parliamentary terms after, the law is not yet in place, at an estimated loss of about \$250b to Nigeria in potential investments, returns on investments,

and revenues. With oil being discovered almost everywhere now and the world looking beyond fossil fuel, Nigeria cannot afford to lose more time. To optimise opportunities in the sector before time runs out, it is imperative to fast-track having a law that will provide fiscal certainty to investors and address the design errors in the sector. A lot of work has been done on the PIBs over time. It is therefore important to build on what is on ground, adopt an inclusive approach, and aim for a law that creates a win-win and is competitive. FG should also lean on the goodwill and the structure that was used in 2019 to see through for the Deep Offshore and Inland Basin Production Sharing Contracts (Amendment) Act. There can't be a better and more urgent time to break the PIB jinx.



Further Institutionalize Transparency in the Oil and Gas Sector:

Transparency is prescribed in the extractive sector both as an antidote to corruption and resource capture and as a precursor of accountable, inclusive and optimal application of natural resources. The implementation of EITI in Nigeria, coordinated by NEITI, has led to more openness in the sector. Most stakeholders, including the NNPC, are now embracing proactive disclosure. This is a world away from the pronounced opacity of the sector some decades ago. But transparency is a continuous work in progress. More openness, not less, will always be needed, especially in areas such as contracts, commodity trading, beneficial ownership, bid rounds, production costs etc.

Conclusion

The economic problems brought on by the coronavirus pandemic is, without any question, a major challenge for the global economy. But for resource-dependent countries, it is a chilling reminder of the existential threat they all face in earning revenues from their God-given mineral resources. Over the course of history, and however fortunate resource-rich countries think they are, the blessings of mineral resources can quickly transform into a curse that sets most of these countries on a path of misery.

This path follows a sequence of delusions, dependencies and distortions. First, the onset of resource windfall creates the delusion that the country will continue to be rich from its natural resources. Then, overtime, the country becomes dangerously dependent on revenues from mineral resources due to this delusion, but also because resource rents are relatively easier to earn and spend. This dependence ultimately creates severe distortions to the economy where productive sectors become moribund as they are crowded out by the extractive sector. As an inevitable consequence, any disturbance in the flow of revenues from such resources produces an automatic threat to the economy of such resource-dependent country.

The present slump in oil prices, largely on account of COVID-19, has again reinforced the danger of overwhelming dependence on natural resources by countries like Nigeria. To be sure, managing the immediate fiscal crisis should be a priority. But it is important to come to terms with the volatility of oil prices and immediately embark on the hard task of weaning Nigeria off its unhealthy dependence on oil for the bulk of its government revenues and foreign exchange. The virus will eventually be tamed. Oil prices will go up again. So the pain of the moment shall pass. But the next slump in oil prices is not a matter of if but when. Between 2008 and 2020, a period of 12 years, the world has witnessed three major meltdowns in oil prices: 2008/2009, 2014-2016, and 2020. The price slumps have always been accompanied by severe pains that linger beyond the price crash. The task, therefore, is not just for Nigeria to recover from the economic effects of the coronavirus pandemic/current price crash, but to escape the burden of a lifetime affliction.

"The present slump in oil prices, largely on account of COVID-19, has again reinforced the danger of overwhelming dependence on natural resources by countries like Nigeria."