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THE NIGERIAN ECONOMY
REFORMS, EMERGING TRENDS AND PROSPECTS

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FORWARD

This policy research monograph is part of the ongoing research of the Centre for Population and Environmental Development (CPED) on the research theme titled “ Growth and Equity in Nigeria” in the current strategic plan (2010-2014) of the Centre.

The title of this monograph is quite germane to contemporary discourse on national development in Nigeria. The Nigerian economy has not experienced much consistent positive growth and the consequences for national development have been dire. The deterioration in the standards of living, public welfare, social service delivery and infrastructure has been extensive. There are recent macro-economic statistics on economic growth which raise hopes, but the larger impact on development particularly industrialization, production, employment, poverty and social services remain poor. This raises questions about the nature of growth and the level of trickle down effects on living conditions.

The authors raise and seek answers to critical questions on the Nigerian economy. The work is a critical assessment of the economy and its prospects, particularly against the backdrop of recent visions, plans, reforms, policies and agenda. Its approach is simple and the breadth fairly comprehensive. It contributes hugely to understanding the peculiar challenges of managing the economy for growth and development.

We are particularly grateful to the Think Tank Initiative for the Institutional support provided for CPED which has enabled the Centre to support this study and its publication in this policy monograph.

Professor Emeritus Andrew G. Onokerhoraye
Executive Director, CPED, Benin City. January 2014.

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ACRONYMS

GDP	Gross Domestic Product
PPP	Purchasing Power Parity
ADP	African Development Bank
SMIDA	Small and Medium scale Industries Development Agency
RBDA	River Basin Development Authorities
SME	Small and Medium Enterprise
ECOWAS	Economic Community of West African State
EPZ	Export Processing Zone
CBN	Central Bank of Nigeria
CDS	Clearing Delivery and Settlement
ATS	Automated Trading System
UBE	Universal Basic Education
NRC	Nigerian Railway Corporation
ICAO	International Civil Aviation Organization
ITU	International Telecommunication Union
NITEL	Nigerian Telecommunication Ltd
M-TEL	Mobil-Telecommunication Ltd
NIPOST	Nigerian Postal Service Ltd .T
AFEM	Autonomous Foreign Exchange Market
USA	United State of America
DAS	Dutch Auction System
NGO	Non Governmental Organization
ROSCA	Rotating Saving and Credit Association
RNFA	Rural Non Farm Activities
FDI	Foreign Direct Investment
OFI	Other Financial Inflows
FPI	Foreign Portfolio Investment
SAP	Structural Adjustment Programme
NEEDs	National Economic Empowerment Development Strategy
LEEDs	Local Economic Empowerment Development Strategy
MD**Gs**	Millennium Development Goals
NDIC	Nigerian Deposit Insurance Corporation
LNG	Liquefied Natural Gas
DMO	Debt Management Office
DPC	Due Process Compliance
BPP	Bureau of Public Procurement
SURE-P	Subsidy Reinvestment and Empowerment-Programme
PRSP	Poverty Reduction Strategy Papers
LCCI	Lagos Chambers of Chambers and Industry

PREFACE

A study of the Nigerian economy poses several challenges to scholars, because of its peculiar structure, characteristics and outcomes and the contradictions inherent therein.

After witnessing a shift from agriculture to crude oil and gas, as the central driver of growth by the late 1960s, all efforts to diversify the economy and provide a better basis for broad, stable and productive growth have met with very limited success. Huge oil revenues since the late 1960s, have not translated into prosperity and development, and the country still ranks among the poorest in the world in terms of major indicators of development. In spite of the numerous plans, policy frameworks and reforms, economic growth remains epileptic, lacking sustained or consistent growth and subjected to the vagaries of crude oil and gas prices. Each plan, programme, vision and reforms generates much hopes but actually produces little impact while mismanagement, corruption and poor performance continue to underline economic management.

While the majority of Nigerians reel under the yokes of poverty, disease and misery, the ruling elite has not demonstrated serious commitment, discipline and sacrifice in driving growth and progress. Economic inequality remains deep as 10 percent of the poorest in Nigeria have only 1.9 percent of national income while the richest 10 percent have 33 percent (The Guardian 5/08/2010). Though there is currently growth, economic performance remains weak, and the manufacturing and social service sectors have experienced little substantive growth. More critically, current growth is neither broad nor inclusive and is not driving human development, employment, production and wealth.

These conditions, paradoxes and challenges raise numerous questions. Can there be real growth without production? Given the current distortions and weaknesses, can growth be consistent and sustained in the long term? How appropriate are current policies for driving economic growth with development? What policy and implementation deficits, societal challenges and governance weaknesses underpin weak economic performance? Given the character of the ruling class, governance and democratic practice, can efficient resource management, transparent and accountable governance, and the mainstreaming of public welfare and public interests required to drive sustainable development be achieved? The list of questions that could be raised is not exhausted yet, but it shows the depth of concerns, fears and hopes that are generated when the Nigerian economy is critically interrogated.

The authors have sought to provide some understanding of the Nigerian economy in a clear, simple and concise form. We have taken time to survey some salient aspects of the economy by looking back in time, as well as looking at trends and future prospects. Though the Nigerian economy has a complex history that can hardly be exhausted in a monograph, we have attempted some comprehensive and critical examination of the structure of the economy, particularly the real and external sectors; the plan, policy and reform frameworks of management; the nature of management and macroeconomic performance of the economy; the patterns and trends of growth; the challenges and prospects; and what needs to be done for deepened and sustainable growth and development.

The recent positive outlook and assessment of the Nigerian economy raises both hopes and fears and further studies may be needed to investigate the phenomenon as a way of extending and building on the work that has been down in this text. Some questions persist and would continue to attract the attention of scholars, activists, civil society and practitioners. Can Nigeria exploit its rich potentials and sustain the capacity for growth? How realistic is the prospect for sustained growth given the macroeconomic, political and security climate of Nigeria? How tenable is the forecast economic outlook for the next few years? What should be the nature of management required to facilitate meaningful growth and development, and what are the likely policy challenges?

We appreciate the Centre for Population and Environmental Development for publishing this effort under its IDRC Think Thank Initiative.

Samson E. Edo and Augustine O. Ikelegbe,
Faculty of Social Sciences, University of Benin, Benin City, Nigeria. January, 2014

CHAPTER 1

INTRODUCTION

Nigeria attained independence in 1960, and soon after in 1966, was engulfed in a political turmoil that ushered in a regime of coups, counter coups, regime changes, political instability and a civil war between 1966 and 1979. During this period, the country was largely governed by the military, using coercive instruments and systems of administration that were inimical to economic growth and development. The ambition and greed among the ranks of the military to remain in power led to the frequent change in government that virtually rendered the economy of Nigeria prostrate. The incessant change of government became a serious impediment to the implementation of some well meaning policies to such an extent that programs on which enormous sums of money were already expended got abandoned, and in some cases, were completely scrapped along with the passage of government that articulated them. This scenario, among others, depicts the economic waste that characterized the period of political instability in Nigeria.

The period also witnessed deliberate government policies to reduce foreign participation in the economy, such as the indigenization decrees of 1972 and 1977. The implementation of these decrees led to substantial transfer of investments from foreigners to government and a few wealthy Nigerians. The rationale for doing this which according to the government was to reduce the high repatriation of profit by foreigners turned out to be a serious disincentive to economic growth. The investments acquired from the foreigners by government were mismanaged to enrich a few officials, while the generality of the people for whom the investments were held in trust continued to suffer deprivation and sharp deterioration in the standard of living.

During the period, oil boom provided government with enormous revenue from the export of crude oil. In addition to the revenue from crude oil, Nigeria went off-shore to accumulate foreign debt, based on her credit worthiness, to execute a number of ambitious projects most of which were economically undesirable. The oil wealth coupled with the external borrowing created an impetus for massive expenditures on projects and programs that were in the main unproductive. The indulgence on the part of government coupled with other ill-conceived policies led to a rapid expansion of the government sector that invariably had some crowding out effects on the private sector. The inefficiency of government operations soon became a major bottleneck to the growth and development of the economy that led to the long period of economic stagnation. This scenario generated intense pressure on the government from within and outside the country to undertake economic reforms for the purpose of encouraging growth and development.

The initial response of government to the economic stagnation was to put in place a number of stabilization measures as reflected in the Economic Stabilization Act of 1982. The measures and controls were however ineffective and counter-productive to the extent that the growth rate of gross domestic product (GDP) turned negative and capacity utilization in industries declined drastically. In 1985 more stringent fiscal, monetary and exchange control measures, as well as the incomes policy, were designed to arrest the deteriorating economic situation. Although the new approach helped to re-establish some control over the economy the problem of macroeconomic imbalance however remained unresolved. Fundamental economic reform was therefore seen as the only viable option that could prevent the total collapse of the economy. This consideration informed the IMF/World Bank inspired Structural Adjustment Program (SAP), which took effect in 1986 and ushered in the era of social economic reforms that have tended to create a more conducive environment for economic growth and development.

The various reforms and policies that have been put in place since 1986 have contributed in no small measure to the turn-around of the economy. Nigeria is currently ranked as the second largest economy in Africa, with a large and viable capital market as well as rapidly growing population. As a regional power, the Nigerian economy represents about 55 percent of West Africa's GDP (African Development Bank, 2013), and accounts for 64 percent of GDP based on purchasing power parity (PPP) valuation of the fifteen member countries in the ECOWAS sub-region (Ignite, 2013). The country has a population of about 160 million people that is regarded as enterprising. It has huge potentials as reflected in its natural resources which include about 80 million hectares of arable land, 33 solid minerals, large oil and gas reserves that ranks her the twelfth largest oil producer and eighth largest gas producer in the world (Osagie, 2011). Nigeria is regarded as a middle income mixed economy and emerging market with expanding financial, telecommunications and entertainment sectors. The growth rate of the economy is currently described as healthy and among the fastest in Africa.

The economy is primary product oriented and dominated by agriculture and crude oil production. The oil and gas sector is the main driver of the economy, in terms of revenues, foreign exchange and foreign investments. The sector accounts for above 90 percent of total exports, 95 percent of foreign exchange earnings and about 80 percent of budgetary revenues. In 2011, the petroleum sector accounted for 79 percent of federal revenues and 71 percent of export revenue. The sector's contribution to GDP was 14.7 percent in 2011 and 12.9 percent in the second quarter of 2013 (African Development Bank 2013). Agriculture is the dominant economic activity, accounting for 40 percent of GDP in 2011 and employing about 70 percent of the population. The labour force in the sector was estimated at 47.3 in 2009 and 58.8 in 2012. The sector experienced decline following the oil boom of the 1970s. Agriculture's share of exports was 75 percent in 1965 but declined to a mere 3 percent in 2012. Its contribution to GDP was 63 percent in 1960 but declined to 34 percent in 1988, 33.4 percent in 2009 and 30.9 percent in 2012 (Ignite 2013).

The industrial base of the economy remains weak. Industrial production growth rate was estimated at 2.5 percent in 2011, and manufacturing only contributed 4.2 percent to GDP. Industry and construction accounted for a total of 9.5 percent of GDP in the second quarter of 2013. The main exports are petroleum and petroleum products (95 percent), cocoa and rubber while the main imports are machinery, equipment and manufactured goods. The main export destinations in 2011 were USA (29.1 percent), India (11.6 percent), Brazil (7.8 percent), Spain (7.1 percent) and France (5 percent). The major countries of import were China (17.3 percent), USA (9.1 percent), India (5 percent), Netherlands (4.9 percent) and South Korea (4.7 percent) (International Monetary Fund, 2013).

The major drivers of current growth of the economy are the crude oil and gas sector, and the non-oil sector particularly agriculture, telecommunications, building and construction.

Overview of the Study

The work is structured into seven chapters containing sections that address various aspects of the economy. It begins with chapter one which is the introduction that presents the background history of the economy since independence in 1960 and an overview of Nigeria's economic development. Chapter two treats some components of the macroeconomic environment such as structure of the economy, the rural economy and trade. Chapter three examines some developments in the external sector that have significantly impacted on the economy over the years. Chapter four discusses economic reforms such as structural adjustment, financial sector liberalization, petroleum sector and public sector reforms. After several decades of economic stagnation, economic reforms were eventually introduced to improve the economic situation. The reforms have substantially enhanced economic growth and the prospects for the future seem to be quite good.

In chapter five, there is consideration of the emerging trends in planning, management, reforms, growth and development. In chapter six, the prospects of the economy are discussed with particular reference to economic outlook for the next few years, the prospects of growth, the kind of growth that is being fostered, challenges facing the economy, and some policy options. Chapter seven is a conclusion that acknowledges growth potentials and good prospects of the economy.

CHAPTER 2

MACROECONOMIC ENVIRONMENT

2.1 Structure of the Economy

The macroeconomic environment is a complex super structure comprising several inter-related sectors and activities that work together to facilitate economic growth and development of the country. The major sectors of the economy as indicated by the Federal Government of Nigeria (2002) are presented and discussed in the ensuing sub-sections.

Real Sector

The real sector of the economy is essentially involved in the production of goods and services. Its activities cut across agriculture, manufacturing, mining and quarrying, water resources, science and technology, environment and tourism. This sector has the highest potential for achieving a broad-based and diversified economy, but its performance has been unimpressive over the years, hence the desire to re-position it for more effective performance (Obadan and Edo, 2004).

The performance of agriculture in particular has been a deplorable one. Its output of cash crops such as cocoa, cotton, rubber, groundnuts, and palm produce dwindled consistently over the last three decades, while production of livestock also fell. There was a rapid decline in foodstuff production to the extent that Nigeria became a net importer of food in the last one decade. The basic objective of government in this regard has therefore remained the substantial turn-around of agriculture to adequately play its proper role in food supply, employment creation, poverty reduction, raw materials supply to industry, and diversification of the economy. In view of this, government has been making efforts to create enabling environment and incentives to private farmers, sensitize them through promotional and awareness activities, and provide infrastructure that would enhance their productivity. The specific policy measures in this regard include modernizing agricultural production, processing, storage and other practices, by introducing new and improved technology and seedlings. Other measures include the provision of farm inputs, encouraging local fabrication of farm machinery, encouraging state and local governments to develop grazing reserves, ensuring better and easier delivery of credit to farmers, assisting the unemployed to go into agricultural activity, revival of the strategic grains reserve program, and expansion of agricultural extension services.

Manufacturing, on the other hand, has been characterized by low capacity utilization that averaged 30 percent in the last decade, low and declining contribution to national output, declining and negative real growth rate, dominance of light consumer goods manufacture, low value-added production due to high import dependence for inputs, and the dominance of sub-standard goods that cannot compete internationally. These features clearly identify Nigeria as a country characterized by the phenomenon of de-industrialization which requires the attention of government in order to ensure that manufacturing becomes the engine of growth in the economy. This has prompted the government to enunciate policies aimed at achieving the national goal of transforming the economy from dependence on primary products to reliance on industry. The prime focus is to enhance the contribution of manufacturing to national output, foreign exchange earnings, and poverty reduction. Manufacturing is also expected to play the leading role in broadening the productive base of the economy, as well as stemming rural-urban drift.

In order to achieve the objectives and targets in the manufacturing sub-sector, certain measures have been put in place by government, which include the following:

- Implementation of the strategic industries initiative that would ensure the diversification of the manufacturing base.

- Privatization of state-owned enterprises.
- Establishment of the small and medium scale industries development Agency (SMIDA) to promote and address the problems of such industries.
- Sourcing of technical assistance for industrialists in the area of technology and capacity building.
- Intensification of economic diplomacy to attract foreign investors.
- Rationalization of development finance institutions for effective credit delivery.
- Strengthening of the capital market.

In the mining and quarrying sub-sector, economic potentials have not been fully harnessed. The fortunes of solid minerals declined significantly following the rising profile of crude petroleum in the 1970s. Mining sites were abandoned as crude petroleum provided cheaper source of energy and government revenue. Consequently, infrastructure at the mining sites deteriorated due to neglect. The potentials of solid minerals therefore remained largely underdeveloped, which compelled the remanufacturing sub-sector to depend on importation of minerals that otherwise would have been produced locally. Since 1999, measures have been taken by government to enhance development and exploitation of solid minerals. Such measures include the formulation of a new national policy on solid mineral development that provides enabling environment for private sector participation, computerization of database on Nigeria's solid mineral resources to assist potential investors, and the prohibition of illegal mining activities. These measures are intended to enhance contribution of solid minerals to employment generation, government revenue, and foreign exchange earnings.

The tremendous potentials of the mining and quarrying sub-sector are mainly attributed to petroleum resources. Nigeria's oil and gas production per day stood at 2.03 million barrels and 2.5 billion standard cubic feet, respectively, by 2000. Total crude oil and natural gas proven reserves stood at 27 billion barrels and 120 trillion standard cubic feet, respectively, during the same period. The down- stream side of the petroleum sub-sector has four refineries with daily production capacity of 445,000 barrels, a pipeline network of over 5,000 km, 21 storage depots and 9 liquefied petroleum gas depots. Despite the high level of investment in the petroleum industry by government and private enterprises, its performance in the last decade has been unimpressive and characterized by product shortages occasioned mainly by communal strife, pipeline vandalism, and failure to carryout Turn-around-maintenance of refineries and pipeline systems as and when due. The situation was aggravated by the cut in quantity of crude oil allocation to refineries from 320,000 bpd to 250,000 bpd. The government is however poised to reverse the trend and enhance Nigeria's share in the world petroleum market by ensuring a steady flow of crude oil and petroleum products to both local and international markets. To achieve this laudable goal, several measures have been outlined, which include exploring alternative sources of fund for developing petroleum resources, encouraging private investors to establish more refineries and gas projects, and deregulation of petroleum products market.

Nigeria's water resources are quite enormous, and estimated to be 267.3 billion cubic meters of surface water and 52 billion cubic meter of underground water per annum. With proper harnessing, the quantity can satisfy all the agricultural, energy and other water needs of the economy. The huge financial investment on water resources development in the country has so far harnessed only 10 percent of available quantity effectively. In terms of water supply, only 30 percent of rural dwellers and 50 percent of urban population have access to potable water. In the area of irrigation, the capacity utilization of dams is below 30 percent. The government has decided to improve the situation by setting a goal of universal access to safe drinking water and adequate sanitation for all Nigerians by 2025, as well as the optimum utilization of water resources to enhance and sustain economic growth. To achieve this, certain measures have been proposed, which include rehabilitation and reactivation of the River Basin Development Authorities (RBDAs) and existing urban water supply schemes, construction and development of down-stream facilities for irrigation and potable water supply, encouragement of private sector participation in water resources development, and establishment of water quality laboratories, among others.

Science and technology has yet to play its expected role in accelerating economic growth of Nigeria. It has failed to design and develop appropriate facilities that could enhance growth thus compelling the country to depend on high-cost foreign technologies. The failure may be attributed to poor linkage of research institutions to end-users in the industry, inability of research institutions to commercialize inventions, as well as inadequate funding of these institutions. Government has therefore proposed measures to improve the situation, such as the linkage of small and medium scale enterprises (SMEs) with research institutions to work in collaboration, provision of incentives for research into the use of local raw materials, and additional incentives to improve on existing locally fabricated technologies. The goal is to make indigenous technology a veritable instrument for increasing locally produced goods and services.

The physical environment is a crucial part of the economy which has been plagued by numerous problems such as drought, erosion, uncontrolled logging and tree felling, damage to marine and wild life, gas flaring, urban decay, air and water pollution, ozone layer depletion, poor waste management, and crude land use practices. In view of this, government has spelt out several objectives which include improvement in the quality of environment for good health and well-being, conservation and use of the environment and natural resources for the benefit of present and future generations, and the enhancement of the ecosystems and ecological processes in order to sustain natural resources. The measures designed to achieve these objectives are the enforcement of compliance with environmental standards, re-forestation, adoption of environmentally friendly technologies, implementation of relevant international conventions, sensitization on the dangers of environmentally unfriendly practices, carrying out environmental impact assessment of development projects, assistance to industries to change to ozone-friendly production processes, sensitization of state and local governments on the need to develop and update their waste management systems, and the effective management of destructive practices.

Tourism is not left out in the poor performance syndrome that has continued to characterize the real sector of the economy. Although it has strong potentials for enhancing employment and revenue for the country, such potentials have remained largely under-developed. Employment and revenue from tourism have remained low and insignificant, while foreign exchange earnings have been virtually non-existent. The factors responsible for this performance include poor and inadequate infrastructure, political instability, social insecurity, and failure of government to create enabling environment for private sector participation in the industry. Government has however begun to take steps to harness potentials of the industry. The measures taken so far include the creation of ministry of Culture and Tourism to promote and articulate policies for the development of tourism, rehabilitation and reactivation of tourist attraction centre, and participation in international and local exhibitions where the cultural potentials of the country can be show-cased and marketed. These measures, coupled with a good and stable political system are expected to increase inflow of tourists to the country.

Trade and Distribution Sector

Trade and distribution activities in Nigeria are characterized by inter-regional trade barriers, bureaucracy in the implementation of trade incentives such as export rebate, long delays in business registration, non-implementation of the ECOWAS treaty on free trade, and long processes of clearing goods at the ports. The efforts of government has been directed towards strengthening trade and facilitating movement of goods and people within the country in order to minimize regional price differentials, and in addition, improve the level of foreign trade. This goal has been driven by adopting the following policy measures;

- Reviewing existing trade incentives.
- Establishment of trade centres.
- Establishment of databank on trade.
- Adoption of measures for exploring the potentials of Africa for trade.
- Effective implementation of ECOWAS protocol on free movement of goods and people.
- Full operations of the Export processing zones (EPZs).
- Continuous port reforms
- Prevention of dumping.

These measures are expected to boost trade and promote economic growth and development in the country.

Financial Sector

The Nigerian financial sector recorded tremendous growth in the last two decades, especially in the number of banks and other financial institutions following the liberalization policy initiated in 1986. The regulatory system of the sector was however weak and the money market characterized by banks with low capital base and operational inefficiency. They were more active in granting short-term loans/overdrafts as well as trading in foreign exchange, with marginal effects on the real sector of the economy. Micro-credit was left largely to the unorganized informal financial sector of the economy. The capital market, on the other hand, was characterized by poor infrastructure, high cost of transaction, low capitalization, long delays in settlements, and poor investment attitude of buy-and-hold. The insurance firms were poorly capitalized and found it difficult to manage risks, and thus had negligible impact on activities in the capital market. The financial system as a whole was unable to attract substantial foreign investment and venture capital needed to facilitate economic growth and development.

In order to re-position the sector for better performance, the Central Bank of Nigeria (CBN) has been granted more autonomy to regulate and facilitate efficiency and growth of the money market. In addition, more financial institutions have been brought under the control and supervision of CBN and their capital base requirement increased to ensure more sanity in the system. The capital market is also being repositioned to meet the challenges of globalization and attract more foreign investment. To this end, the clearing, delivery and settlement (CDS) system in the market has been re-organized and automated. Similarly, the Automated Trading System (ATS) has been established to increase the trading efficiency of the stock market, which also allows the listing and trading in foreign equities. Other measures for enhancing efficiency and growth of the financial sector include;

- Strict licensing regulations for banks and other financial institutions.

- Strengthening the monitoring and supervision activities of the Central Bank, Securities and Exchange Commission, and National Insurance Commission.
- Effecting the operation of universal banking scheme.
- Reducing time frame for raising funds in the capital market.
- Encouraging more companies to seek public quotation.
- Increasing awareness campaign on potentials of the capital market.

These measures together are expected to create a viable, safe and sound financial system that will launch Nigeria on the path to sustainable growth and development.

Social Services Sector

The health care system in Nigeria over the years deteriorated to such an extent that experienced Nigerian health experts migrated to other countries in search of better conditions of service. Consequently there was high infant and maternal mortality, as well as the prevalence of diseases in epidemic proportions. The government decided to address the situation by massive immunization against all vaccine preventable diseases, ensuring universal access to primary health care, eradication and prevention of epidemic diseases, resuscitating the secondary health care system, and stepping up enlightenment campaign on HIV/AIDS pandemic. The specific targets for the health care system by 2003 included 80 percent immunization coverage for all vaccine antigens, 80 percent of essential drugs availability in all health care establishments, reduction of infant and maternal mortality by 50 percent, reduction in the incidence of malaria by 80 percent, and increase in primary health care service from 40 percent to 70 percent. The primary health care program is the cornerstone of the health policy which is expected to raise life expectancy to 60 years. These targets are yet to be achieved almost ten years after the time frame.

The education system also experienced deep crisis for several years and fell into a deplorable condition in the last two decades. Adult literacy rate was relatively poor at 57 percent in 1999, and only 50 percent of school age children were actually in school, with between 10 percent and 30 percent of actual enrolment recorded in some states. The rate of school drop-out has been increasing over the years, while the quality of education has fallen significantly at all levels, especially at the tertiary level that witnessed phenomenal brain-drain to other parts of the world. The government, recognizing the danger posed by this trend, packaged a set of objectives for the education system, which include eradication of illiteracy by 2010, increase in adult literacy rate from 57 percent to 70 percent by 2003, and more importantly, the acquisition of science and technology education and its effective application. The measures designed to achieve the objectives include;

- Implementation of the Universal Basic Education (UBE) scheme.
- Encouraging private sector participation in education
- Supporting research efforts in education.
- Monitoring and evaluation of the entire system of education.
- Institutional rationalization.
- Emphasis on practical skills development.
- Providing enabling environment for teaching/learning comparable to that of the developed countries.

These measures are expected to re-position the education system to adequately play its role as a fundamental instrument for accelerating national development.

Infrastructure Sector

The infrastructure base of the Nigerian economy has remained weak over the past decades and is further characterized by uneven distribution, unreliability and decay, arising from several years of neglect. The government has responded to the problem by expressing determination to improve basic infrastructure as a means of promoting economic development. Power supply in the country for instance has been grossly inadequate, as only about 30 percent of the population has access to electricity, due to the fact that only 27.3 percent of installed capacity of the 8 power stations was actually generating power. This problem was further compounded by the overloading of transmission lines, resulting in frequent outages in several areas. It is the intention of government to address these problems, and provide Nigerians with regular and uninterrupted electricity supply by rehabilitating the existing 8 power stations to operate at full capacity of 5,400 mw, while 4 additional stations would be constructed. Independent power producers/plants are also being encouraged to operate and supply power for domestic and commercial use.

The state of transport infrastructure has been generally poor, as road, rail, air and water transport systems have for several years been characterized by deplorable conditions, such that most rural areas cannot link up with the rest of the country. Moreover, the different transport modes are not properly linked to serve the socio-economic needs of the people. The federal government is taking steps to establish a network of roads that would make a larger part of the country accessible. This was supposed to be achieved by first rehabilitating 20,000 km of roads, dualizing 1,230 km of roads, and constructing 1,300 km of new roads before the end of 2003. Subsequently more roads were to be given attention. In addition, public-private partnership was introduced in the provision of roads and other infrastructure.

The rail system has also remained undeveloped for several decades, and characterized by outdated tracts with sharp curves and gradients, as well as speed limit of about 35 km/hr. The system has therefore been under-utilized with only 50 percent of its 280 railway stations functioning and passenger capacity utilization of about 10 percent. The goal of the federal government in this regard is to modernize and expand the rail network linking major activity centres such as ports and raw material sources. In addition, the rail system would be linked to the Trans-African rail network, and fully integrated into the national transport system. Ultimately, the rail system is expected to be positioned as the major carrier of goods and people due to its advantage over other modes of transportation. The measures to revamp the system include refurbishing and rehabilitating railway station equipments and facilities, modernization of the obsolete rail tracks, encouragement of private sector participation in rail transport, and the commercialization of Nigerian Railway Corporation (NRC).

Water transportation has continued to stagnate along with other systems, despite the fact that the country has about 3,300 km of navigable inland waterways which ought to provide easy access to the coast from the hinterland. The waterways have not been adequate for navigation due to lack of dredging and modern vessels of river transportation. Again, Nigeria has many seaports, but they one not operating efficiently due to poor facilities and management. The goal of government has been to enhance the use of water as a major means of transportation. To this end, the major rivers in the country, especially River Niger, are to be made navigable all year round by dredging them. The other inland water ways would be developed to increase the overall water carrying capacity in the country. In the area of seaports, the goal is to make Nigeria the centre of maritime activities in the West African sub-region. This would be achieved by encouraging more private sector involvement in maritime activities, rehabilitation and reactivation of port facilities, provision of more deep-sea capacity ports, and the reforms of procedures at seaports.

Air transport is not left out, as most facilities at the airports are also in poor condition. Most of the aircraft in use in Nigeria do not meet the standards required by the International Civil Aviation Organization (ICAO). In addition, the arrival and departure halls at the international airports are poorly equipped. It is the desire of government to turn the situation around and enable the aviation industry in Nigeria meet international standards, and at the same time provide an affordable alternative means of domestic transportation to Nigerians. In order to achieve these goals, infrastructure at the airports is being refurbished by government, more private investors are being encouraged to participate in the industry, and the college of Aviation Technology in Zaria is undergoing resuscitation and reactivation.

The information and communication infrastructure has expanded tremendously in Nigeria in the last decade with the deregulation of the telecommunications sector and introduction of mobile telephones. Before the deregulation policy communication services were provided by government monopolies and the cost of providing such services was one of the highest in the world, due to inefficiency. In 1999, out of the 400,000 telephone lines connected, only 50 percent were functioning, and tele-density was 4 lines per 1000 persons, which is a far cry from the International Telecommunications Union (ITU) recommended density of 1 per 100 persons. Again, only 100 out of the 774 local government headquarters had telephone services. In the area of postal services, the delivery system was very poor and mail theft became rampant. In order to re-position the country to meet the challenges of modern trends in information and communication, government decided to install an efficient and effective communication system that is affordable to many Nigerians. This was achieved by breaking the monopoly of Nigerian Telecommunications Ltd (NITEL) and Mobile Telecommunications Ltd (M-TEL). In addition, the Nigerian Postal Services Ltd (NIPOST) was restructured and commercialized to enhance efficiency and performance. The telecommunications industry was therefore deregulated to create a level playing field for private investors that ultimately and dramatically improved the state of telecommunications infrastructure in the country.

External Sector

Raw materials and capital goods dominate Nigeria's imports, even as the economy is described to be largely import-dependent. This tends to explain why imports have fluctuated over the years mostly in the upward direction. Total imports have fluctuated and rose astronomically since 1986 owing largely to trade liberalization. There has been significant increase in privately funded imports, that is, import not valid for official foreign exchange. This category of imports almost doubled, as it increased by about 91.3 percent between 1986 and 2002. Similarly, imports valid for foreign exchange in the autonomous foreign exchange market (AFEM) rose by 60.2 percent. Within this period, oil sector imports increased by 10.7 percent, while the non-oil import contracted by 9.6 percent.

Crude oil exports dominate the export sector, accounting for over 80 percent of total export. The Americas received the largest share of Nigeria's crude oil export, which has increased steadily over the years in contrast to Western European countries having a declining share. The value of oil export to Asia especially to China has also increased over the years. A different trend is observed for African countries where both the volume and value have fluctuated and slightly declined over the years. Overall, the United States of America (USA) remains the largest importer of Nigeria's crude oil, accounting for over 40 percent of the total value. The balance of trade for Nigeria has been fluctuating between surplus and deficit over the years, but has recorded surplus for most part of the period it recorded surplus. The surpluses recorded in recent years would have been larger but for the current imports of refined petroleum products which are used to augment short supply in domestic production due to the collapse of the country's refineries.

At the foreign exchange market, the average exchange rate of the naira to the dollar rose gradually from ₦81.0 in 1995, N103.8 in 2000 and N120.5 in 2002. It has since risen to ₦156 as at mid-year of 2013. This development indicates that the local currency has become considerably weak as a result of the high dependence of the economy on imports. The Dutch Auction System (DAS) was re-introduced in 2002 to moderate the depreciation of the currency, but it is doubtful whether this system can contain the demand pressure in the market, especially when the economy is still highly import dependent and foreign exchange inflow is erratic due to instability of the world oil market.

2.2 The Rural Economy

The rural economy of Nigeria is predominantly large, with agriculture as the main source of livelihood as shown in table 1. More than 80 percent of the rural labour force is engaged in peasant farming, which contributes close to 50 percent to gross domestic product (GDP) of the country, and also provides raw materials for agro- processing industries. Most of the food produced is for own consumption, while cash requirements are met from sale of cocoa, groundnuts, cotton, palm oil, and surplus food. The income of farmers from agricultural activities in rural areas is relatively large compared to other sources (Table 1). The pattern appears to be the same in urban area. The males derive more income from farming while females derive more from non-farming activities. The highest income from farming comes from the south west zone and the lowest is in the south east.

Table 1: Distribution of Farmers' Income by Sex, Sector and Geo-political Zones (Naira), 2004.

	Income from farming activities	Other income	Total income	Per capita Income
	Mean	Mean	Mean	Mean
SEX				
Male	41,175.4	9,687.8	53,376.8	8,972.5
Female	31,375.4	10,162.9	43,563.8	11,660.5
SECTOR				
Urban	45,288.2	14,837.3	66,190.3	10,773.4
Rural	39,682.9	8,998.9	50,644.8	8,965.0
ZONE				
South South	45,146.0	13,602.2	61,648.0	11,736.4
South East	29,431.8	7,473.2	38,410.0	8,371.5
South West	57,238.3	6,674.8	66,947.9	17,451.7
North Central	38,045.6	4,158.0	44,480.9	8,117.8
North East	42,259.9	8,057.6	51,991.3	7,969.8
North West	39,482.5	13,037.6	55,620.6	8,054.6

Source: National Bureau of Statistics, 2004.

Nigeria attained political independence in 1960, and up to 1970 the rural economy buoyed with agricultural activities. The decade after 1970 however saw a rapid decline in agriculture as the petroleum sector began to expand and dictate the pace of growth of the national economy. This structural transformation did not augur well for the rural economy, as it encouraged rural-urban migration and de-population that considerably reduced economic growth rate of the country-side below the national average. As at 1985, an estimated 96 percent of the core poor in Nigeria lived in the rural areas, plagued with diseases and high mortality.

The development strategies adopted in the country since 1970 have so far failed to stem the declining trend in economic life of the rural areas. Political instability has aggravated the situation in three major respects. First, government ability to extend infrastructure to the rural areas was severely curtailed as many states of the country became isolated from the centre. Second, with decline in infrastructure, access to credit was impaired, which negatively affected efforts at modernization of agriculture. But probably the most serious factor is the lack of capacity by political leadership at the local level to mobilize people for purpose of developing the rural areas.

Formal and Informal Financial Activities

The provision of formal financial services is constrained in the rural areas by high cost of intermediation, poor knowledge of the socio-economic environment, and the poor management of micro businesses. The inability of banks to reach the rural population both for disbursement and recovery, and the rigid terms and conditions for agricultural lending, have minimized the impact of formal financial institutions on the rural economy. In recent years, a number of new private banks have been established, but this could not reduce the urban bias of banking services. Commercial banks are located mostly in urban centres to the disadvantage of over 80 percent of the population living in rural areas. Sequel to this, government has made efforts to establish rural credit schemes in order to enhance access to funds in the area, but they have failed to achieve this short-term objective. Instead they became source of cheap loans for politicians and government officials that were never repaid. The long-term objective of the credit schemes was to reduce poverty by enabling rural dwellers to engage in income generating activities, with emphasis on artisans, women, youth, and the disabled. In principle, the schemes were meant to provide seed money for people to embark on sustainable productive ventures, which were in some cases implemented through local government institutions and non-governmental organizations (NGOs). The credit schemes eventually became mere extensions of political patronage, with the revolving fund provision necessary for their sustenance often lacking, thus leading to their failure.

The poor performance of formal financial sector in providing funds for rural development and the failure of interventions from government created a vacuum which has encouraged informal financial activities to thrive. A few other institutions have tried to bridge the resource gap in the rural areas by providing rural households with direct financial assistance, advice and market information on a regular basis. These are essentially cooperative societies and NGOs. As experience from Bangladesh shows, these institutions have good access to grass-root infrastructure and a comparative advantage in rural finance operations because of low overheads and transport costs. Furthermore, they adjust to suit rural needs, and have a considerable rural bias in lending activities. However, these institutions have serious financial resource constraint that tends to limit their capacity and performance.

Cooperative societies are relatively old institutions in Nigeria. They grew out of the need to mobilize farmers and ensure prompt delivery of products to the market, ensure high quality of the products, and limit farmer exploitation. Gradually some cooperative societies became involved in financial intermediation in the rural areas to raise the level of credit supply. They have adequate knowledge of local environment, while a broad membership enables them to engage in lending, relying on peer pressure for loan recovery. As a result, they generally have lower intermediation cost than the conventional banks, and have thus become important in the rural financial structure.

The past decade has witnessed a sharp increase in the role of Non-governmental organizations (NGOs) in rural development in Nigeria. The most innovative ones have been able to design their own rural development programs and have thus been complementing the efforts of government. A number of them are at present engaged in execution of various rural development projects, while others are providing credit to the rural population. In the absence of banking facilities, they have served as an alternative means of linking rural households with conventional banks and government credit schemes. The activities of NGOs are limited by availability of donor funds, but a few of them have developed the capacity to survive on their own funds, although there has been considerable duplication of efforts in their operations.

There also exists a variety of other informal and unregulated financial activities in the rural economy providing credit to the people. These include the lending and borrowing activities of Rotating Savings and Credit Associations (ROSCAs), traders and landlords. These informal transactions are somewhat difficult and complex to document, nonetheless, existing evidence suggests that activities of ROSCAs predominate. Available information also reveals that they account for 35 – 40 percent of total informal credit in the rural economy. The average lending rate for the informal financial transactions is also relatively high, due to the great risk associated with them. The transactions have some link with the formal sector by way of arbitrage and credit policy. In the first case, some money lenders in the informal sector recognize the lending rate differential between the two sectors, so they borrow low from the formal sector and lend high in the informal sector, which provides them considerable profit margin. In this way, funds constantly flow between the two sectors. In the second case, the informal sector responds to changes in credit policy of the formal sector, which also affects the flow of funds between them. The importance of informal financial activities in the rural economy has continued to grow, and policy-makers are continuously exploring ways of integrating them into the formal financial sector of the economy

Finally, the formal and informal financial activities in the rural areas of Nigeria have so far failed to adequately provide required funds for the rural economy to achieve sustainable growth and development. Over the years, the aggregate supply of credit to the rural areas has remained grossly below the national development plan estimates of credit required to facilitate its growth and development. This clearly creates a resource gap that needs to be reduced, and it is on this basis that the introduction of microfinance banks into the financial structure became imperative.

Agricultural Activities

The rural economy of Nigeria is predominantly large, with agriculture as the main source of livelihood. More than 80 percent of the rural labour force is engaged in peasant farming, which accounts for appreciable proportion of Gross Domestic Product (GDP) of the country, and also provides raw materials for agro-processing industries. Rural agriculture entails crop and livestock production, with a tendency towards geographical specialization. The northern part of the country produces more of cotton, rice, beans, groundnuts, and livestock. The southern part produces more of cocoa, cassava, rubber, and palm produce. Rural agriculture is characterized by low productivity, due to several factors:

i) Traditional System of Farming: This system uses poor quality input, and in some areas shifting cultivation that has failed to generate the quantity of crop and livestock necessary to meet the needs of a rapidly expanding population. The inadequate use of modern techniques is due to poor rural access to information, as well as inadequate support services and credit. Risk-aversion on the part of farmers also militates against adoption of new methods of farming. Unless the return on capital invested on inputs such as fertilizer is at least 100 percent, adoption by peasant farmers may not take place.

ii) Poor Access to Information: Various researches conducted show that there are serious deficiencies in transmitting research output to farmers in the rural areas. There is tendency for such outputs to be confined to specific locations. It has also been argued that in spite of the large number of women engaged in rural agriculture, men tend to get more information and extension services, especially in relation to cash crops, which they dominate. This leaves agricultural productivity among women, especially in food production, predominantly low.

iii) Land tenure system: The traditional land tenure system in Nigeria is an impediment to agricultural productivity in rural areas. This system is characterized by small land sizes and disputes that reduce land cultivation and utilization. Thus, the system needs to be modernized by providing proper land titles and legal structure for dispute adjudication. Land title enhances security of tenure and promotes investment in agriculture. It is also used as collateral, thereby increasing access to institutional credit. Modernization of land tenure therefore possesses strong potentials for developing agriculture in rural areas.

iv) Access to Markets: When farmers have adequate access to markets, it enables them to generate cash income which they may want to plough into non-agricultural activities in order to reduce the risk inherent in over-dependence on agriculture. In Nigeria however, rural farmers have poor access to markets due to poor road network and other transport facilities, thus discouraging productivity especially in perishable products.

v) Poor Access to Credit: Lack of credit markets in rural areas has been identified as one of the most serious impediments to agricultural productivity. Credit institutions are mostly urban-based, making the sourcing of information by rural dwellers for purpose of granting credit very costly. Private credit institutions therefore would rather prefer to avoid lending to rural dwellers. Government institutions, often with non-market motives, have embarked on a number of rural lending schemes. Many have not been sustained while in some cases, the main beneficiaries were politicians and other urban-based individuals. Credit availability is closely related to market access. In both cases, adequate infrastructure is important. Asian experience suggests that priority should be given to improving general communications, that is, transport and market infrastructure, and letting the private sector take care of the credit needs of rural areas.

vi) Rural Human Resource Development: Basic education has been found to be important in farmer absorption of information regarding all aspects of agricultural production. Critically, education also improves farmer strategies for dealing with risk. It is thus a key feature in enhancing efficiency in agriculture, by facilitating entrepreneurship and speeding up responses to changing market conditions and technological development. The fact that only 30 percent of rural men and 20 percent of rural women can read and write in Nigeria indicates that rapid agricultural development may be difficult to achieve in the short to medium term.

Non-Agricultural Activities (Micro businesses)

Although farming is the dominant economic activity among rural communities in Nigeria, there are relatively few households for which agriculture is the exclusive source of income. Instead, men, women and often young children are also involved in a variety of non-farm activities at different times of the year. Rural non-farm activities (RNFAs), by definition, include activities other than those performed on the farm or related to farming, that is, manufacturing (including agro-processing), handicrafts, construction, transportation, commerce, and services. They serve as alternative sources of income to agriculture. The major micro businesses in Nigeria include commerce, agro-processing and transportation. Rural households engage in commerce mostly in the form of petty trading, which does not involve huge capital investments. Trading employs a considerable proportion of rural dwellers, especially women, who lack access to credit due to high cost of intermediation and the perceived high risk involved in lending to them. The inability of banks to reach traders in rural areas for disbursement and recovery, and the stringent conditions for lending, have acted to minimize the contribution of formal credit institutions to growth of business in rural communities. The informal and unregulated financial services in the rural areas thus provide credit to finance trading activities at high cost, which is inimical to the growth of commerce. These informal credit services provided by local money-lenders, ROSCAs and landlords, have so far failed to provide sufficient funds for business in rural areas.

Micro agro-business ventures also engage in the processing of agricultural products into groundnut oil, palm oil and kernel, cassava products, dried fish, etc. Processing enhances the value of agricultural products in the market and makes it possible for the products to be stored for a fairly long period of time. Most agro-processing ventures in rural areas still depend on use of traditional methods that constrain output and productivity. While output in agro-processing is declining in rural areas due to poor techniques of production, lack of access to credit, limited access to market, poor entrepreneurship and environment hazards, big companies with high production technology are gradually dominating the agro-processing industry. They process agricultural products for export. Thus, agro-processing as a source of income to rural dwellers, has been on the decline.

Transport services (road and river) provide another major source of income for rural dwellers. This source of income is greatly impaired by the poor network of roads in rural areas, as well as poor access to credit and unfavourable climatic conditions. Government policy on provision of social infrastructure has over the years neglected the rural areas, hence transportation business continues to suffer from several problems, resulting in high cost of services and low returns.

The distribution of farmers' income in Table 1 clearly indicates that income from non-farming activities is significantly low compared to income from farming. This implies that RNFAs have yet to contribute meaningfully to income of rural dwellers.

The Imperative of Transforming Rural Agriculture

The rural agricultural sector in Nigeria has been plundered by low prices, high input costs, poor credit and transportation services, as well as poor distribution networks that effectively prevent freedom of entry into the market. There is the need to put an end to the exploitation of peasant farmers, reduce income inequality and alleviate poverty in rural areas. Trade theories canvass that resources should be shifted to production with comparative advantage. Therefore, policy makers need to be properly guided as to which sector, priority and national resources should be directed. Nigeria appears to have been emphasizing technological and industrial breakthroughs by engagement in gigantic official and formal sector funding at the expense of the agriculture/rural sector which is the foundation of the nation's economy. For instance, the nation's capital expenditure for some years was N173.3 billion in 1995, and rose to N498.03 billion in 1999. The corresponding capital expenditure on agricultural and natural resources was N2.4 billion in 1995 and N6.9 billion in 1999 (Central Bank of Nigeria, 2000). Given Nigeria's total population of about 160 million people, the capital expenditure on agriculture/rural sector is considered low and incapable of reviving the sector.

The diversification of the economy from crude oil dependence to multi-sector driven economy should be one area of concern to government. A logical pursuit will no doubt give the needed attention to agriculture/rural sector. As such, if Nigeria would give agriculture priority attention, her GDP will grow faster and poverty level would fall. It is in the agricultural sector that the battle for long-term economic development will be won or lost. The main burden of development and employment creation will have to be borne by the part of the economy in which agriculture is the predominant activity. Therefore, the policies for reforming rural agriculture in Nigeria should endeavour to focus on the following:

i) Accelerated food production that would provide direct source of food and income to the rural poor. Emphasis should be on increasing production per hectare of land and unit of labour through increased agricultural research and development efforts, and improved extension services through governmental and non-governmental channels that will enable all farmers to use the results of research and reap the benefits from technological advances. The two-way linkage between research and extension must be strengthened.

ii) Wide insurance cover is required to minimize the risk of experimentation of new technology and to provide a sense of security to the marginal and small farmers.

iii) Broadening the geographical base of agricultural growth by spreading yield-raising technology to unfavourable agro-climatic regions, is essential for sustaining high growth.

iv) Improvement in agricultural and socio-economic arrangements, which will create enabling environment of development policies (fiscal policies, land tenure policies, good governance, popular participation, suitable credit schemes and institution-building) that would allow all sections of the community to sustain the increased production.

v) High priority should be given to sound national agricultural policies, and their adjustment to new international trade regimes. In particular, the creation of more open access to markets and fair and predictable prices for products will be important to increase production. A clear focus on improved delivery systems for the physical inputs required for increased productivity (seeds, fertilizers, crop protection chemicals, and veterinary supplies) should form a part of these policies.

vi) Introducing income transfer schemes to the old citizens and unemployed youth of targeted groups, including provision of public distribution of subsidized food at stable prices to targeted groups.

vii) Improving emergency plans for providing food aid and other relief materials during national disasters such as drought, flood and earthquake.

viii) Land reforms are needed not merely as an instrument of mobilizing political support, but for providing employment opportunities and eradication of poverty. Land reform programs should be accompanied by effective agricultural extension services program and other empowerment strategies. Such programs limit the need for emergency land sales, increase peasants willingness to take risks and improve their bargaining power. Although the evidence is hardly definitive, land reforms appear to promote equity and efficiency (Bardhan, 2001).

ix) The rural poor can also be empowered by enhancing their human and economic potentials, strengthening their individual and organizational capacities, and promoting their ability to participate in society politically, economically and socially.

x) There should be a genuine concept of sustainable development that should centre on peoples' livelihood, which means setting priorities for promoting local self-reliance in terms of food security, shelter, and productive assets under the peoples' control and ownership. The government should give more weight to its responsibility for creating favourable framework of conditions, as well as structural redistribution of resources to the benefit of the poor and, consequently, redirect more state resources to the social and economic needs of the poor.

xi) Increasing food production and its distribution through an efficient marketing infrastructure, including the public distribution system, is no guarantee for ensuring the food security of the poor. The poor need to have adequate entitlement to access food either through the market or through the public distribution system. Entitlements are better created and preserved through employment programs, or income generation schemes. The agricultural reform success achieved in China could be replicated in Nigeria if appropriate policies and programs are effectively implemented.

Lessons from China's Agricultural Revolution

By the late 1970s, it was evident that the agricultural system was not working well in China as the growth in agricultural output had weakened considerably prompting reforms to be undertaken beginning with rural liberalization in 1978 where land ownership remained with the state but land use contracts were typically fixed for 15 to 25 years. The household responsibility system allowed farm households to lease land from the state and sell a fixed quota of their output at state-determined price to government agencies, and the remaining output at freely determined prices in agricultural markets. State procurement prices were also raised to ease the financial strain on an impoverished rural sector whose real consumption had been stagnant for over a decade. Under the system, individual households become responsible for making production and allocation decisions as well as paying taxes to the state. By 1990, the collective system of farming which accounted for two-thirds of the average rural household income in 1978 contributed less than 10 percent.

Incentives for agriculture were increasingly improved through price liberalization. Government procurement prices were raised across board such that by 1983 increases in quota and over-quota prices ranged from 36 percent for grain to 80 percent for cotton. Although government prices were still below free market prices, the gap between the two was considerably reduced. Further, farmers were allowed to purchase scarce inputs at low prices and to buy grains at subsidized urban retail prices in return for the delivery of farm products to the state. Producers responded to these incentives by increasing both production and sale of agricultural output. The rapid agricultural growth was also facilitated by the significant investment in infrastructure, particularly irrigation, achieved in the pre-reform period but remained largely under-utilized on account of inadequate development strategy and defective institutional framework. The various reforms coupled with the existing infrastructure stimulated a rapid catch up in agricultural productivity with the sector experiencing a real average growth of 6.6 percent during 1978 – 1984. The significant improvement in agricultural output enabled China to switch from being a marginal importer of rice to a significant exporter in the course of a few years.

Encouraged by the rise in agricultural output and concerned about the budgetary outlays for agricultural subsidies, the government eliminated the compulsory procurement system in 1985. For grain and cotton, compulsory delivery quotas were replaced by voluntary contracts with farmers at new proportionate prices, and in response, farmers cut their deliveries to state. In 1993, government embarked on a policy of gradual removal of administrative restrictions in the marketing of agricultural products in order to allow market forces to operate and also to reduce the burden of consumer subsidies on the government.

The agricultural and related reforms in China have been quite successful in producing extraordinary increases in economic well-being within a short period. The reduction in rural poverty has been greatly attributed to rapid agricultural growth in the country.

2.3 Domestic and External Trade

The trend in both domestic and external trade is shown in table 2 below. In the period 1981-1989, the volume of external trade was significantly larger than that of domestic trade. However, domestic trade as percentage of GDP increased from 13.2 percent to 15 percent, which appears to be marginal, while external trade on the other hand declined from 46.1 percent to 38.9 percent. This decline may be attributed to trade restrictions and foreign exchange constraints in that period. During the period the government introduced counter trade in an effort to stem the decline in external trade. In the decade of 1990 – 1999, the decline in external trade was reversed, which then increased remarkably from 55.3 percent in 1990 to 61.9 percent in 1999. Domestic trade had a marginal increase from 13.5 percent in 1990 to 15.5 percent in 1999. The increase in external trade was due mainly to the trade liberalization measures of the 1990s.

In the period 2000-2006, domestic trade declined and could not rise above 15 percent as compared to the two preceding decades. External trade remained above 60 percent in 2000, but declined slightly to 57.4 percent in 2006. The decline in domestic trade in this period is blamed on poor road network and other infrastructure. The dominance of external trade over domestic trade has therefore been quite remarkable over time with obvious implications, hence the need to encourage domestic trade in order to minimize possible negative effects on the economy from external trade shocks. Theoretically, domestic trade is considered an engine of economic growth because of its potential to enhance consumption, production, employment generation and economic growth. It enhances consumption and aggregate demand, which in turn encourages production, employment generation and economic growth. This trade-growth nexus becomes very strong when the environment for trade is favourable.

Table 2: Domestic and External Trade in Nigeria

Year	GDP at current producer prices (Nm)	Domestic trade at current producer prices (Nm)	External trade at current prices (Nm)	Domestic trade as percentage of GDP	External trade as percentage of GDP
1981	51,731.8	6,840.5	23,862.9	13.2	46.1
1982	53,659.0	7,009.2	18,976.9	13.1	35.4
1983	57,963.3	8,799.4	16,406.2	15.2	28.3
1984	64,326.4	9,105.2	16,266.3	14.1	25.3
1985	73,542.1	9,729.8	18,783.4	13.2	25.5
1986	74,908.2	10,052.0	14,904.2	13.4	19.9
1987	111,912.9	15,691.8	48,222.3	14.2	43.1
1988	147,941.1	21,975.0	52,638.5	14.9	35.6
1989	228,451.5	34,281.6	88,832.4	15.0	38.9
1990	281,550.3	37,956.5	155,604.0	13.5	55.3
1991	329,070.7	44,263.1	211,023.6	13.6	64.1
1992	555,445.5	65,979.5	348,762.9	11.9	62.9
1993	715,241.9	106,811.5	384,399.5	14.9	53.7
1994	945,557.0	167,759.5	368,848.0	17.7	39.0
1995	2,008,564.0	290,107.7	1,705,789.1	14.4	84.9
1996	2,799,036.1	378,163.6	1,872,170.0	13.5	66.9
1997	2,906,624.9	415,540.5	2,087,390.1	14.3	71.8
1998	2,816,406.0	470,764.9	1,589,275.4	16.7	56.4
1999	3,312,240.9	514,381.8	2,051,485.5	15.5	61.9
2000	4,717,332.1	558,672.7	2,930,745.7	11.8	62.1
2001	4,909,526.5	680,717.6	3,226,134.2	13.9	65.7
2002	7,128,203.1	818,787.6	3,256,873.0	11.5	45.7
2003	8,742,646.6	978,656.0	5,168,121.7	11.2	59.1
2004	11,673,602.2	1,513,587.0	6,589,826.8	13.0	56.4
2005	14,735,324.0	1,897,497.7	10,047,391.1	12.9	68.2
2006	18,709,786.5	2,742,216.0	10,736,857.0	14.7	57.4

Source: Central Bank of Nigeria Statistical Bulletin (50 years anniversary edition).

It therefore means that trade can be an effective driver of growth when favourable conditions are in place, which include the following;

- Good network of infrastructure
- Absence of restrictive laws and regulations (price control, government monopoly)
- Political stability
- Social security
- Absence of cartels
- Availability of Credit.

Trade can inspire innovators or entrepreneurs to take up new activities. An efficient system of trade encourages economic growth, and once obstacles to trade are removed, the resulting increase in economic activities can easily be seen, because marketing activities produce multiplier effects. In establishing any new industrial venture, the entrepreneur, however creative he may be in terms of new product idea, cannot take further steps unless the marketing possibilities are bright.

Trade also enables a country to improve the quality of goods. There is usually the tendency for high quality goods to attract more patronage which may subsequently encourage the production of high standard goods that can compete favourably in international market. A producer that offers low quality goods in a competitive market could attract low demand that may not sustain production.

Finally, trade helps improve the welfare of the people by offering variety of goods with freedom of choice, thus catering for consumers physical and emotional needs. That is why sometimes, trade is described as the 'delivery of welfare'. Poor trade therefore leads to poor welfare of the people.

The value of domestic trade in Nigeria has continued to expand over the years as a result of population growth, increasing urbanization, trade liberalization and improved transportation. It rose astronomically between 1981 and 2006, but its contribution to real gross domestic product (GDP) has however been significantly lower than that of external trade as shown in Table 2. Domestic trade has contributed to the real GDP of Nigeria by adding value to goods that are traded.

CHAPTER 3

EXTERNAL SECTOR AND THE ECONOMY

3.1 Export Boom and Structural Change

A dramatic change in the structure of the Nigerian economy was set in motion in the 1970s as a result of unprecedented boom in export which was driven by favourable market conditions that led to large scale crude oil exploitation in the resource sector of the economy. The description of the structural change provided in Edo (2013) shows that as early as 1970, the resource sector had expanded and was already contributing as much as 74.3 percent to gross domestic product (GDP) of the country (Table 3). Its share of GDP reached a peak of 85.7 percent in 1986, and thereafter it decline marginally. For the entire period of analysis, however, its share never fell below 73 percent, which implies that the growth in the economy was largely accounted for by the resource sector. The most remarkable years in the resource sector expansion, according to the table, are 1984 -1990, when the share of the sector stayed above 84 percent for the 7 years.

The expansion in the resource sector as indicated by its significant share in GDP led to the structural change that squeezed the manufacturing and service sectors. The manufacturing sector experienced a decline in its share of GDP from 7.2 percent in 1970 to 4.4 percent in 1975, and thereafter rose to a peak of 11 percent in 1980. It however declined from that peak to 3.9 percent in 2009, yielding a total of twenty-nine years characterized by declining oscillations. The sector thus declined from its share of 7.2 percent in 1970 to 3.9 percent in 2009, which amounts to almost 46 percent drop from the initial level. This scenario clearly depicts the fact that the export boom and the resultant resource sector expansion had a corresponding contraction in the manufacturing sector.

Table 3: **Sectoral Distribution of Nigeria's GDP (in Percentage)**

Year	Resource Sector	Manufacturing Sector	Service Sector
1970	74.3	7.2	18.4
1971	75.2	6.5	18.3
1972	73.6	7.9	18.4
1973	70.7	8.9	20.3
1974	76.0	7.4	16.6
1975	79.2	4.4	16.3
1976	79.3	5.0	15.7
1977	79.5	5.4	15.1
1978	76.0	7.4	16.6
1979	76.2	8.7	15.0
1980	73.8	11.0	15.1
1981	83.0	6.7	10.3
1982	81.9	7.8	10.2
1983	83.5	5.8	10.6
1984	84.9	5.2	9.9
1985	84.4	6.0	9.6
1986	85.7	5.2	9.1
1987	84.6	5.9	9.4
1988	84.4	6.2	9.3
1989	84.3	5.9	9.7
1990	84.2	5.5	10.3
1991	83.1	6.1	10.7
1992	83.4	5.7	10.9
1993	83.3	5.4	11.2
1994	83.2	5.3	11.4
1995	83.6	4.9	11.5
1996	83.8	4.8	11.4
1997	83.7	4.6	11.6
1998	83.0	4.9	12.1
1999	83.4	4.3	12.3
2000	83.6	4.2	12.1
2001	80.5	4.1	15.3
2002	81.2	3.8	15.0
2003	82.5	3.6	13.9
2004	81.1	3.9	15.0
2005	81.0	3.8	15.2
2006	80.4	3.9	15.7
2007	79.8	4.0	16.2
2008	79.0	4.1	16.9
2009	80.2	3.9	15.8

Note: The sectors are as classified by the United Nations (International Standard Industrial Classification)

Source: Reproduced from Edo (2013), p. 108.

On the other hand, the service sector had a somewhat different experience. At the inception of the period there was a slight drop in its share of the GDP from 18.4 percent in 1970 to 9.7 percent in 1989. This initial decline was subsequently followed by a rise from 10.3 percent in 1990 to 15.8 percent in 2009, covering a period of 20 years. Overall, the sector with initial share of 18.4 percent in 1970 came down to 15.8 percent in 2009, representing a marginal contraction. This trend also indicates that the resource sector expansion had a corresponding contraction in the service sector of the economy.

Thus, from the analysis of the sectors, it can be inferred that considerable structural change took place in the economy of Nigeria within the period 1970-2009, and this change came with the export boom that led to expansion in the resource sector and contraction in both the manufacturing and service sectors. This structural change has tended to crowd out the manufacturing sector in particular. This is not an encouraging development as no country can achieve meaningful growth when the economy is characterized by a declining manufacturing sector, a phenomenon described as de-industrialization.

3.2 External Debt Problem

Since independence in 1960, Nigeria has been obtaining external loans to augment internally generated funds needed to finance development projects and balance of payments deficits. In the process the country accumulated external debt regarded as normal until 1980s when interest rates rose sharply across the globe causing rapid increase in the value of existing debt stocks. In spite of this development, external borrowing continued at higher interest rates and before long, the accumulated debt reached a crisis proportion that created anxiety and fears among stakeholders in the Nigerian economy. This situation of enormous debt persisted as the country could not immediately mobilize sufficient funds to meet the debt obligations.

The debt rose steadily in the 1980s to astronomical levels in the 1990s hence the International Monetary Fund/World Bank listed the country among the World's top fifteen externally indebted countries. The other African countries included in the list are Morocco, Cote d'Ivoire, and Sudan. The growth rate of external debt oscillated from 2.2 percent in 1980 to a peak of 17.9 percent in 1983 and declined to -0.2 in the year 2000. This decline notwithstanding, it had an average growth that was virtually the same as the growth rate of the economy, which implies that external debt unfortunately grew at the same pace with the economy (table 5). The enormous debt was owed to three major categories of creditors namely London Club (commercial creditors), Paris Club (official creditors), and Multilateral Institutions (World Bank, International Monetary Fund, African Development Bank, European Investment Bank). A significant proportion of the debt originated from the Paris Club such that as at 2002, about 65 percent of the $30 billion of the outstanding debt was held by the club. However, it was the borrowing from London Club that made the country highly vulnerable to the adverse effects of rising interest rate.

The growth of external debt in Nigeria may be attributed partly to domestic factors. First is the over-ambition on the part of government to speed up the process of development in the face of inadequate domestic resources. This ambition led to massive external borrowing without regard for possible future consequences such as inability to service the loans. This craze for external borrowing was further encouraged by the convenience of borrowing as an alternative to raising taxes. The private sector was also encouraged to borrow huge sums of money from international capital market because of government anxiety to promote economic liberalization and growth.

In the early 1980s, the country appeared to have over-borrowed in the sense that it became difficult to generate enough output and export earnings to meet debt obligations. A second domestic factor is what has been described as fiscal indiscipline on the part of political leadership of the country which incurred large and growing fiscal deficits that had to be covered by domestic and external borrowing, in an effort to facilitate economic growth and development. A third factor is the over-valuation of domestic currency which encouraged imports and discouraged exports resulting in large current account deficits that were financed through borrowing from foreign banks on short-term and medium-term. When these loans could not be repaid on schedule, they were then rolled over each year until the accumulated debt became too large to service. It is generally agreed that these factors contributed more to the debt problem than any other. The world economic recession and high interest rates in the international capital markets merely aggravated the crisis, but certainly did not create it.

Table 4: External Debt and Nigerian Economy

Year	External debt burden (debt-GDP ratio in percentage)	Growth rate of external debt	Growth rate of the economy
1980	3.7	2.2	5.3
1981	6.0	6.4	-
1982	5.0	-1.9	-0.3
1983	18.5	17.9	-5.4
1984	22.9	3.3	-5.1
1985	23.9	1.9	9.4
1986	56.7	8.9	3.2
1987	92.6	8.4	-0.6
1988	92.2	2.5	10.0
1989	106.8	4.9	7.2
1990	114.6	1.8	8.3
1991	101.3	0.7	4.7
1992	99.0	4.0	3.0
1993	90.3	1.1	2.7
1994	71.0	0.2	1.0
1995	73.0	0.8	2.2
1996	47.2	0.4	3.4
1997	63.6	-1.2	3.2

1998	74.1	6.2	2.4
1999	78.2	-0.7	2.8
2000	93.4	-0.2	5.4
			4.6

Source: Reproduced from Edo (2002, 2003).

In response to the debt crisis, Nigeria adopted some debt management programs starting with the structural adjustment program of 1986, aimed at re-invigorating the economy instead of seeking additional external loans. Although the adjustment program caused serious distortions to the economy, it was able to at least divert interest away from further external borrowing by liberalizing domestic capital market. The market was able to facilitate the debt-equity swap that made part of the country's external debt to be converted into marketable issues and hence the reduction in accumulated debt stock. Several other measures were also put in place that eventually enabled the country to exit external debt trap in early 2000s.

3.3 Global Economic Melt-down

The global financial and economic crises created challenges for the Nigerian economy in the late 2000s. The Nigerian economy faltered and the banking sector and stock market were immersed in crisis. The Nigerian stock market took a heavy blow from the global crisis as market capitalization declined from N13.5 trillion in March 2008 to less than N4.6 trillion by January 2009. The market suffered a 70 percent decline between 2008 and 2009. Policy responses and reform measures by government were instrumental in controlling the effects of the global crisis. There was an expansionary fiscal policy stance between 2008 and 2009. The Central Bank of Nigeria (CBN) took measures to restructure and strengthen the financial sector through mandatory higher minimum capital requirements.

Table 5: Stock Market Indicators 2006 – 2010

Year	No. of Listed Companies	Market Capitalization US $ (million)	Turn Over Ratio %	S&P Global Equity Indices Annual % Change
2006	202	32,819	13.6	34.0
2007	212	86,347	28.2	108.3
2008	213	49,803	29.3	-
2009	214	33,325	11.0	- 35.4
2010	215	50,883	12.5	20.3

Source: Nigerian Capital Market Statistical Bulletin 2010. Abuja, Security and Exchange Commission

The CBN intervened in order to restore confidence in the sector, through a reform that was anchored on four pillars: enhancing the quality of banks, establishing financial stability, enabling healthy financial sector evolution, and ensuring the financial sector contributes to the real economy. . More specifically, the CBN;

i) Injected about N620 billion in equity into the banks
ii) Changed the leadership in eight banks
iii) Made efforts to strengthen corporate governance, disclosure, transparency
iv) Enhanced regulatory framework, regulations, supervision and enforcement.

The interventions in the financial sector and particularly the banking sector were quite impactful. The efforts resulted in the consolidation, recapitalization and portfolio clean ups in the banking system and managerial changes in some banks (African Development Bank 2013). The reforms strengthened market confidence and sectoral performance, with dramatic growth in bank capital. It also strengthened the reputation, health, transparency and good governance of the sector (Ignite 2013).

3.4 Capital Inflow

The composition of capital flow to Nigeria, and indeed developing countries, includes foreign direct investment (FDI), foreign portfolio investment (FPI), and other financial inflows (OFI) that are mostly international bank loans. Foreign direct investment takes a significantly large proportion, and it is again taken to have the most significant impact on economic growth, because it is relatively illiquid and cannot flow out easily at the first sign of trouble. The other components constitute a lesser proportion, and possess high liquidity that enables them to flow out easily when the environment becomes unfavourable. The impact of international bank loans on economic growth is also considered significant, but that of foreign portfolio investment is somewhat insignificant (Loungaui and Razin, 2001).

The level of capital flow to developing countries could generally be attributed to both external and domestic factors, but the overwhelming evidence is that domestic factors are more predominant. The strong argument here is that domestic policies in these countries are deficient in their content, and also suffer from frequent shifts that make the investment environment unpredictable (Mishra, 2001). The International Monetary Fund and the World Bank argue further that these policies are mostly in the form of restrictions on capital transactions that tend to dampen capital inflow and reduce the rate of economic growth. On the external side, it is argued that the capital flow to developing countries is greatly influenced by the phenomenon known as contagion, which is described as the herding behaviour of international investors who flee because other investors were fleeing from developing countries. This behaviour is considered a major cause of the reversals in capital flow to some developing countries including Nigeria. The herding behaviour according to Obwona (2001) depends on the degree of linkage among foreign investors in the host country. If they interact closely and are mutually dependent, the decision of a few to relocate for some extraneous reasons could spur others to follow, leading to capital flight.

The trend in capital flows to Nigeria in the period 1980–2003 was characterized by large oscillations that may be attributed to several factors such as unstable political system and inconsistent government policies (Edo, 2007). The various components of capital inflow exhibit similar trend as shown by their percentage contributions in Table six (6). Thus in 1980, foreign direct investment (FDI) contributed as much as 49.8 percent, which fluctuated to an all time low of 8.9 percent in 1988. However, in subsequent years, the contribution improved, particularly in 1997–2003 when it remained above 75 percent and fluctuations considerably narrowed. The foreign portfolio investment (FPI) component of capital inflow made insignificant contribution of 2.6 percent in 1980, due perhaps to lack of confidence in the Nigerian financial markets. The contribution remained below 10 percent for the entire period except for 1986 that recorded 21.7 percent, as well as 1984 and 1987 with 13.3 percent and 15.6 percent, respectively. The lowest contribution of 0.9 percent occurred in 1993. The other financial inflows (OFI) component, which includes loans, aids and grants, together accounted for 47.6 percent of the total inflow in 1980, and subsequently reached a peak of 89.5 percent in 1988. Thereafter, it oscillated and dropped to 15.5 percent in 2003.

Table 6: Capital Inflow and Economic Growth in Nigeria, 1980–2003

Year	FDI (percentage of total capital inflow)	FPI (percentage of total capital inflow)	OFI (percentage of total capital inflow)	Change in total capital inflow (%)	Real GDP growth rate (%)
1980	49.8	2.6	47.6	9.5	5.3
1981	36.7	3.8	59.5	-5.4	-
1982	24.6	4.5	70.9	18.8	-0.3
1983	19.5	5.5	75.0	6.6	-5.4
1984	15.6	13.3	71.1	-3.5	-5.1
1985	21.9	9.2	68.9	32.2	9.4
1986	13.7	21.7	64.6	-37.6	3.2
1987	17.3	15.6	67.1	25.4	-0.6
1988	8.9	1.6	89.5	20.3	10.0
1989	38.6	4.5	56.9	14.9	7.3
1990	23.8	8.0	68.2	-49.4	8.3
1991	45.4	3.8	50.8	-36.5	4.7
1992	15.3	3.4	81.3	28.9	3.0
1993	56.2	0.9	42.9	-57.2	2.7
1994	85.1	1.1	13.8	-3.6	1.0
1995	31.6	2.5	65.9	28.1	2.2
1996	52.7	5.7	41.6	11.4	3.4
1997	80.9	4.0	15.1	-93.7	3.2
1998	75.3	4.4	20.3	14.3	2.4
1999	77.6	4.3	18.1	16.8	2.8
2000	78.2	4.1	17.7	20.7	5.4
2001	79.1	3.9	17.0	9.6	4.6
2002	76.3	7.4	16.3	10.8	3.5
2003	77.8	6.7	15.5	11.7	9.6

Source: Central Bank of Nigeria Economic and Financial Indicators (2002), and Author's calculations from International Financial Statistics Yearbook (IMF, 2004)

The annual changes in total capital inflow over the entire period are quite instructive. The period 1981–1990 witnessed negative changes, with the largest decline of –49.4 percent occurring in 1990. It declined further in the period 1991–2000 recording astronomical drop of –93.7 percent in 1997. Although the rate of change remained positive after 2000, the trend on the average is indicative of an unimpressive level of capital flow to Nigeria in the period 1980–2003. The growth rate of real gross domestic product (GDP) on the other hand was mostly poor and negative between

1982 and 1987, but improved and remained above 6 percent in 1988-1990. Thereafter it fell below 6 percent until 2003. The poor growth rate is somewhat a reflection of the deterioration in capital inflow during the period.

A close observation of the table also reveals that the contribution of FDI alone is overwhelming and supersedes that of FPI and OFI put together, which implies that the Nigerian economy mostly used FDI to augment domestic investment. However the changes in total capital inflow for the period under consideration clearly reflect a scenario of dwindling capital inflow and deterioration in economic growth.

CHAPTER 4

ECONOMIC PLANNING FRAMEWORKS, POLICIES AND REFORMS

4:1 Economic Planning Frameworks

An overview of the key planning initiatives since the country gained independence in 1960 as described in Obadan and Edo (2009) shows clearly that the planning efforts produced outcomes that fell short of expectations for the economy.

Fixed Medium-term Plans

After independence in 1960 Nigeria adopted the fixed medium-term plan as the framework for development. The First National Development Plan which covered the period 1962 – 68, had the following main objectives:

- Growth rate of 4 per cent per annum
- Growth rate of per capital consumption of 1 per cent.
- Provision of more opportunities in education
- Self sustaining future growth.

The proposed total capital investment was N2.13 billion, in which the public sector was expected to contribute 67 per cent and private sector 33 per cent. In the first two years of implementation, the total annual fixed investment for the economy as a whole fell short of the average level of ₦394. 4m. In subsequent years however, the targets were considerably exceeded up to 1967 even with the political turmoil which began in 1966 that culminated in a civil war. By that year, 85 per cent of the total planned investment for the economy as a whole was realized. Accounting for this notable performance was the contribution of the private sector beyond its target. The expected annual average public investment of ₦264.4m was not realized in any of the years due to the diversion of resources to prosecute the civil war and a huge short fall in expected foreign exchange inflow. For the period 1963 – 66, the real growth rate of 4.7 per cent exceeded the minimum target of 4.0 per cent. However, with the out-break of the civil war in 1967, the real growth rate for that year fell to -7.6 per cent, thus reducing the average real growth rate for the period 1963 – 67 to only 2.3 per cent.

The Second National Development Plan (1970 – 74) was designed mainly to reconstruct the war affected economy and to promote social and economic development. It was an ambitious economic development framework that envisaged Nigeria's economic self-reliance in the long-run. It made the public sector to assume the role of economic driver, with the following broad objectives;

- High overall growth rate
- Rapid increase in food production
- Considerable reduction in unemployment
- Significant diversification of the economy
- Equitable distribution of income.

The planned total investment was ₦4.9 billion, and the public sector was to contribute 68.4 per cent leaving the private sector to contribute the balance of 31.6 per cent. The planned real GDP growth rate was 6.6 per cent per annum. At the end of the plan period, the public sector had succeeded in undertaking only 66.8 per cent of the envisaged public sector investment, but the real GDP actually grew at the average rate of 8.2 per cent, exceeding the plan target of 6.6 per cent. There was considerable increase in primary school enrolment by 28.6 per cent between 1970 an 1973, while secondary school enrolment virtually doubled.

The Third National Development Plan (1975 – 80), aimed at improving upon the good performance of the second national development plan. Initially, planned investment was estimated to be ₦30 billion, but due to a number of events, the nominal capital investment was revised upward to ₦53.6 billion. The public sector was expected to contribute 80.8 per cent of the total investment required to improve on economic performance, while the private sector needed to contribute only 19.2 per cent. The planned GDP growth rate was 9 per cent per annum. At the end of the period, total capital formation in current terms stood at ₦42.3 billion with the public sector accounting for ₦29.4 billion (about 70 per cent). The realized growth rate was only 5 per cent per annum compared to the target rate of 9.0 per cent, because the economy had no growth momentum of its own and was therefore adversely affected by the oil price shock in 1978.

The Fourth National Development Plan (1981 – 85) was designed to lay a solid foundation for long-term economic and social development of the country by placing emphasis on greater reliance on internal resources, development of technology and promotion of new national orientation to inculcate discipline and better attitude to work. The planned capital expenditure was N82 billion, out of which the public sector was expected to invest 50.2 per cent and the private sector 49.8 per cent. The planned GDP growth rate was put at 7.2 per cent per annum. However, only about 41 per cent of total planned investment was actually achieved because the plan was truncated by the change of government in 1983. GDP growth rate averaged 1.2 per cent compared with the planned growth of 7.2 per cent. The great expectations of the plan collapsed suddenly in 1981 when a major oil glut emerged in the international market. Apart from the oil revenue instability, the economic stabilization measures of 1982 also took their toll on plan performance. The measures were clearly at variance with those needed to realize the growth targets set for the plan. Indeed, the economic crisis which followed the downturn in the oil market in 1981, shattered the plan and rendered it the most dismal plan in the economic history of Nigeria.

4:2 Structural Adjustment Program (SAP)

The Structural Adjustment Program (SAP) was introduced in mid-1986 as a short-term reform program that was expected to terminate by mid-1988, but it continued thereafter until it was abandoned in 1994. It was the most revolutionary approach to solving Nigeria's long-standing economic problems and the most controversial program of stabilization and development ever instituted in the country. Two of its broad objectives were;

- Re-structuring of aggregate domestic expenditure and production patterns so as to minimize dependence on imports.
- Diversification of the productive base of the economy in order to reduce dependence on the oil sector and enhance non-oil exports.

The objectives were to be achieved through private sector-led development strategy and reduction in the size of the public sector. Accordingly, the measures adopted included the following:

- Exchange rate deregulation
- Liberalization of various sectors of the economy
- Abolition of agricultural marketing boards
- Cut in extra-budgetary spending
- Tight fiscal policy
- Reduction in subsidies
- Privatization and commercialization
- Staff rationalization in the public sector.

The performance of SAP was a mixed package of outcomes. The gains included reversal of the negative economic growth trend of the early 1980s, some impressive growth rates in the period 1988-1990, substantial boost in government revenue, increase in agricultural exports, improvement in external payments arrangements and international credit worthiness, and a fairly stable investment ratio in spite of excruciating inflation rate.

However, this program was not particularly successful in addressing the fundamental economic problems of the country as in most countries where it was introduced. As shown in table 8 average capacity utilization in industries hovered within the range of 38.8 – 43.8 percent which indicates deterioration when compared with the preceding plan period where capacity utilization recorded 38.3 – 73.3 percent. Inflation rate was particularly high in 1988-1989 as well as 1992-1994 while growth in import and non-oil export appeared to have been erratic. The debt service rate was also very high and net resource transfers remained unfavourable during the period.

Table 7: Economic Indicators in the Period of Structural Adjustment Program/Rolling Plan, 1986 – 1994

Year	GDP growth rate (%)	Inflation rate (%)	Investment/ GDP (%)	Average manufacturing capacity utilization rate	Growth rate of non-oil exports (%)	Growth rate of imports (%)	Debt service rate (%)	Net resource transfer ($ bn)
1986	3.1	5.4	6.0	38.8	-29.1	-47.5	35.4	-1.5
1987	-0.5	10.2	3.7	40.4	36.2	4.5	39.7	-0.7
1988	9.9	38.3	4.0	42.2	13.9	7.4	27.6	0.8
1989	7.3	50.5	5.1	43.8	-34.5	-33.3	25.9	-3.4
1990	8.2	7.5	6.3	40.3	1.1	34.4	26.8	-4.1
1991	4.7	13.0	5.8	42.0	16.5	-36.5	29.1	-3.6
1992	3.0	44.6	5.7	38.1	-48.2	-11.1	20.1	-3.7
1993	2.7	57.2	6.2	37.2	-6.8	-19.2	16.9	-3.3
1994	1.0	57.0	5.8	30.4	7.3	-3.6	18.7	-4.1

Source: Central Bank of Nigeria *Annual reports* (1986-1995) and African Development Reports (1990-2000)

The negative effects of SAP included rapid depreciation of the local currency, high and volatile interest rates, near paralysis of the real sector, galloping inflation, heavy debt overhang, increasing unemployment, and deterioration in living standards of the average Nigerian, among others. In the final analysis, SAP created enormous distortions in the economy and failed to redress the fundamental economic problems of the country.

The failure of SAP can be attributed to several reasons including the following;

- The application of IMF/World Bank structural reform measures in Nigeria without taking cognizance of the import-dependent nature of the industrial sector.
- Lack of discipline and commitment in both the public and private sectors.
- Poor vision of policy makers to the extent that long-standing structural problems were expected to be resolved within two years.
- Market imperfections that impeded implementation of the deregulation policy and efficient resource allocation.
- Weak private sector that was unable to manage the free enterprise economy contrary to expectations of the IMF/World Bank structural reform measures.
- Non-integration of social safety nets into the program to cushion the harsh short-term effects of the program.
- Contradictory fiscal and monetary policies.

The structural reform process has since then become an integral part of development plans beginning with the first Rolling Plan which covered the period 1990-1992, and over twelve rolling plans implemented. The NEEDS framework of development and the long-term vision framework also build on the structural reforms of the economy.

4:3 National Rolling Plans

The National Development Plan framework that was suspended following the adoption of SAP in 1986 was re-introduced in 1990 as National

Rolling Plan, which is a flexible development plan compared with the previous plans that had fixed terms. The first National Rolling Plan, 1990 – 1992 took its bearing from SAP. Accordingly, the plan's general objective was to consolidate on the achievements made in the implementation of SAP as well as address the pressing problems of the economy. The specific objectives were:

- Attainment of higher level of self-sufficiency in the production of food and raw materials;
- Laying a solid foundation for self-reliant industrial development as a key to dynamic and non-inflationary growth;
- Creating ample employment opportunities and containing the unemployment problem.
- Strengthening the base for a market-oriented economy.

The priority programs of the plan included integrated rural development, provision of basic infrastructure, and development of small and medium scale enterprises. The plan was expected to produce cumulative total investment of N144.2 billion at current prices, with public sector contributing 65.3 per cent and private sector 34.7 per cent. The plan however lacked adequate coordination and orientation, and according to Yesufu (1996), it was only developed to package the myriads of uncompleted public sector projects. It also suffered from other problems, among which are:

Resource constraints due to rising recurrent expenditures

- Cost overruns that made nonsense of plan/budget provisions and prevented several projects from taking off.
- Extra-budgetary expenditures which exerted a crowding out effect on planned programs.
- High incidence of non-planned programs being executed.
- Problem of providing counterpart funds on projects under external financing.

Since the launching of the rolling plan in 1990, it had been rolled over yearly, and at the end of about twelve rolling plans in 2003, Nigerians were not better off than they were during the years of fixed medium-term planning.

Shortly after adopting the national rolling plan strategy, the preparation of a long-term perspective plan that would encapsulate the rolling plans over a period of twenty years was inaugurated. The plan preparation had made considerable progress before it was jettisoned in favour of the vision 2010 framework. The vision 2010 document, 1997, represented a framework for guiding the country toward economically prosperous, politically stable and socially harmonious system in the long-term. Annual budgets and rolling plans were to be used to implement the vision 2010 and were expected to cover the period 1997 – 2010. But it was jettisoned by the new democratic government that came to power in 1999, in favour of a new market-based approach christened National Economic Empowerment and Development Strategy (NEEDS).

4:4 National Economic Empowerment and Development Strategy (NEEDS)

This strategy was articulated in 2004 to guide Nigeria's development in the desired direction. It effectively replaced the previous plans in the country, namely the fixed medium-term and rolling plans. It identified the problems of the country and accordingly prescribed strategies for developing various sectors of the economy such as agriculture, industry, infrastructure and social services. The NEEDS framework was essentially an articulation of planned policy actions of the federal government, which was expected to be complemented by State Economic Empowerment and Development Strategy (SEEDS) at the state level and by Local Economic Empowerment and Development Strategy (LEEDS) at the local level. The broad goals of NEEDS were;

- Re-orientation of national values.
- Reduction in the level of poverty

- Creation of wealth
- Employment generation

In order to gauge the achievement of the set goals, the NEEDS document provided targets for various segments of the national economy over the 2003 – 2007 period. The minimum GDP growth targets were 5 percent in 2004, 6 per cent in 2005 and 2006, and 7 percent in 2007 based on the assumption that these were the minimum needed to achieve adequate per capita income and improvement in welfare. The target rate of inflation on the other hand was set at 10 percent in 2004 and less than 10 percent up to 2007. The fiscal deficit/GDP ratio was targeted at no more than 3.2 per cent per year. In the external sector, external reserves were projected to increase from US$7.7 billion in 2004 to US$10.7 billion in 2007. Poverty incidence was expected to reduce by 5.0 percent per year up to 2007. In the infrastructure sub-sector, power generation in megawatts was projected to be 4,000mw in 2004, 5000mw in 2005, 7,000mw in 2006, and 10,000mw in 2007. Progress in achieving the millennium development goals (MDGs) was also expected to be substantial. Aggregate investment was expected to increase from N2,071.2 billion in 2004 to N4,663.7 billion in 2007, with the private sector expected to contribute the lion share of investment.

In broad terms, NEEDS was expected to achieve its goals through the following measures;

- Privatization and deregulation/ liberalization of key sectors of the economy.
- Coordination of national and sectoral development strategies for agriculture and industry, with emphasis on small and medium scale enterprises (SMEs) as well as tourism.
- Development of infrastructure, particularly electricity, water supply and transport.
- Strengthening the financial sector for mobilization of

savings toward long-term investment.

- Targeting programs that promote private sector growth and development.
- Creation of effective regulatory systems.
- Special support to agriculture in irrigation, mechanization and crop varieties

The performance of the economy under NEEDS in terms of macroeconomic indicators may be described as an improvement over the previous periods. The inflation targets for 2004 and 2006 were achieved, but the rate increased to 11.6 per cent in 2005. National savings improved, but gross capital formation remained low (11.9 percent in 2004 and 12.0 percent in 2005), which implied that the relatively high savings rate could not be translated into investment. The fiscal position of government improved in the first two years with reduced fiscal deficits in relation to the targets, but the recurrent expenditure/total budget ratios were still higher than the targets.

The performance of the external sector improved significantly. The overall balance of payments recorded huge surpluses compared with the projected deficits, while external reserves shot up significantly above the maximum target US$10.7 billion to US$28.3 billion in 2005. This outstanding performance of the external sector was due to positive developments in the international oil market.

In the financial sector, the growth rate of major monetary aggregates recorded values below the prescribed targets in 2004, with credit to government actually recording negative growth. In the area of infrastructure and social services, power generation remained very low and below the prescribed targets, which slowed the growth in various sectors of the economy that depend on electricity supply. Unemployment remained intractable, although the economy recorded appreciable growth in GDP which also failed to impact positively on standard of living in the country.

4:5 Vision 20:2020 Framework of Development

This framework of development is an attempt by government to take a long-term view of development issues. The Vision was introduced in 2010 to cover the period 2010-2020 which is to be implemented through a number of medium-term plans using modules such as the medium term fiscal framework (MTFF) and medium term expenditure framework (MTEF). The medium-term implementation plans are incorporated in the long-term Vision so that plan policies could be fine-turned with each successive implementation plan to re-direct the economy towards achieving the set targets of the vision.

The Vision is actually a perspective plan and an economic blueprint that seeks to capitalize on the country's resource endowments to steer the nation towards a sustained growth turn- around such that it could be a significant player in the global economy. To realize the vision, the economy is planned to grow at 14% per annum from 2010 to 2020, while the target for GDP is $900 billion and per capita of not less than $4,000 per annum. In terms of broad economic planning, the focus of the vision is on:

i) Broad based market oriented economy

ii) Private sector driven development

iii) Market liberalization and deregulation.

iv) Market forces (free floating exchange rate and appropriate pricing).

v) Export oriented economic activities

vi) Resource based industrialization

vii) Diversification of the economy

viii) Pro-poor development involving employment, economic empowerment and poverty reduction programs

The Economic Policies for achieving the goals and objectives include;

a) Revitalizing the economy to facilitate increased production, job creation and wealth generation.

b) Making the business environment and emerging market place conducive to business.

c) Strengthening confidence in the business environment for local and foreign investors.

d) Macro-economic stability.

e) Improvement in fiscal management.

f) Transparency in the petroleum sector.

g) Strengthening of infrastructure and social services particularly transportation and electricity.

h) Restructuring of the economy and infrastructure through privatization particularly in the energy (electricity) sector.

i) Diversification of the foreign exchange earning capacity of the economy.

j) Stimulating growth of the non-oil sector.

The first implementation plan which covered the period 2010-2013 was mainly directed at infrastructure, growth optimization, improved governance and security, and sustainable development, through projects and investments by governments and the private sector. The Transformation Agenda is another medium term development strategy (2011-2015) within the Vision 20:2020 which the government is using to actualize and speed up the Vision 20:2020, with emphasis on the following goals:

- Macroeconomic stability;
- Good governance and effective institutions; Human Capital Development;
- Real Sector Development; Infrastructure Development;

- Sustainable growth and development.

These goals were to be pursued in order to reduce poverty, create jobs, improve living standards, and build foundation for robust and inclusive growth.

Since inception of the Vision real GDP growth largely driven by non-oil activities averaged 7.01 percent in 2011-2012 and stood at 6.8 percent in the first quarter of 2013. The remarkable increase in nominal GDP raised the global ranking of the country from the 44th position in 2010 to 36th in 2012. The mid-term Report by the Federal Government on the Transformation Agenda for the period 2011-2013 shows that headline inflation (year-on-year) declined from 12.4 percent in May 2011 to 8.6 in March 2013. The private sector continued to perform fairly well as its growth rate was slightly above that of the economy on the average. The stock market capitalization that declined due to global financial crisis rose to N14.4 trillion as at December 2012 and N16.4 trillion as at March 2013. Despite the global economic melt-down, external reserves which stood at $32.3 billion in 2010 rose to $48.6 billion in the first quarter of 2013. Foreign direct investment also performed impressively during the period. In spite of modest achievements recorded during this period, unemployment deteriorated and increased from 21.1 percent in 2010 to 27.4 percent in 2012 while life expectancy remained below 50.

4.6 Financial Sector Reforms

In Nigeria, the financial system was under serious repression in the 1970s but was considerably liberalized in 1986 to enable it grow and facilitate, among other things, rapid economic growth and integration of the country into the global economy. Iganiga (2010) reveals that overtime the financial system has indeed been positively influenced by the liberalization policy. In his argument, the adoption of market determined cash reserve requirement and increased capital base of banks over the period 1987-2008 rekindled public confidence in the financial system, causing cash intensity and domestic savings to rise significantly. Also, the reduction of government ownership interest in financial institutions led to improvement in financial development indicators.

The liberalization policy was very instrumental in expanding activities of the financial sector which generated mixed effects on the economy (Edo, 2012). The banks accounted for more than 80 percent of expansion in the sector with the number of commercial banks and merchant banks increasing astronomically between 1986 and 2005 as well as their network of branches which they used to mobilize tremendous amount of deposits. Prior to 1986, bank deposits recorded modest growth which eventually exploded following liberalization of the sector. Generally, expansion in bank deposits was considerably large in the liberalized period of 1986 - 2009 compared with the past period of 1960-1985.

The financial sector in Nigeria therefore grew quite significantly after 1986 and the growth has been characterized by intense competition among the banks and other financial institutions. In order to sustain the growing confidence of the public in the sector, the government established the Nigerian Deposit Insurance Corporation (NDIC) in 1988 to provide insurance cover for depositors' money. The Central Bank of Nigeria (CBN) also provided protection for depositors by checking the books of all licensed banks to address anomalies that may lead to distress and loss of deposits. Since the establishment of NDIC and the effective CBN monitoring of the banks, the sector has been relatively stable. These reforms were not limited to the money market institutions as the capital market institutions have also gone through considerable reforms leading to impressive growth in market capitalization and volume of trade (Ariyo and Adelegan, 2005).

Several analysts have acknowledged the mixed effects of financial sector reforms on the Nigerian economy. Ogun and Akinlo (2011) argued that the financial reforms led to financial deepening, increase in credit to the private sector, and growth in stock market activities. However, this did not translate into real growth of the economy, as investment remained very low relative to pre-reform period. The lesson therefore is that financial system reform may have enhanced financial development, but it did not enhance economic growth due to the prevalence of macroeconomic instability and structural bottlenecks. The reform was thus introduced in an economic environment characterized by high inflation, unstable exchange rate, high level of unemployment and low productivity. They concluded that financial system reform is not sufficient to enhance growth of the economy, hence it needs to be complemented with structural reform and infrastructural development.

This view is also shared by Bakare (2011) who believes financial reforms led to increase in interest rate, savings and capital formation but no significant impact was made on economic growth. In the same vein, Okpara (2010) holds the view that financial reforms in Nigeria encouraged savings but overall, it did not encourage economic growth, just like Ayadi, Adegbite and Ayadi, (2008) posit that financial liberalization encouraged stock market activities, but did not impact favourably on economic growth. This can perhaps be explained by poor sequencing of the reform process in Nigeria which initially caused high inflation and excessively high rate of interest that impaired the performance of the financial system in facilitating economic growth (Ikhide and Alawode, 2002).

It is also argued that financial reforms was unable to facilitate economic growth due to failure in stimulating growth of small and medium scale enterprises (SMEs) in Nigeria (Woldie and Adeniji, 2008). Before the reform era, government pursued policies aimed at reducing constraints to financing for SMEs. During the period, direct monetary control measures were used to influence aggregate credit to the economy and prescribe interest rate at a lower level in order to make finance available to SMEs. The liberalization of the financial system promoted competition in the banking sector, encouraged deposit mobilization and significantly increased bank liquidity. In spite of the growth in deposits in the financial sector, the SMEs did not have adequate access to funds for investment which tended to impede their growth and that of the economy as a whole. Thus, financial liberalization is not sufficient to significantly improve the growth of SMEs.

4.7 Petroleum Sector Reforms

The petroleum sector in Nigeria was in a parlous state prior to the return of democratic governance in 1999. The corruption in the industry was so much that revenue accruing from the second oil boom of the 1990s occasioned by the Gulf crisis was squandered and could not be accounted for by the government and its relevant agencies. This led to the cardinal thrust of the democratic government in 1999 to undertake reforms in the sector which include several elements some of which are indicated below:

- Transparency in investment, award of oil blocks, revenue accounting, and auditing, aimed at checking corruption in the sector.
- Introduction of local content bill to reduce the high foreign content in the sector, which would enhance utilization of indigenous human and material resources, and thus create several job opportunities for the teeming unemployed Nigerians
- Deregulation of the sector to stem incessant scarcity of petroleum products and unhealthy government monopoly of supply.
- Establishment of Nigerian Liquefied Natural Gas Plant as well as collaboration between government

and major oil companies in other Liquefied Natural Gas (LNG) projects aimed at reducing gas flaring through export and domestic utilization.

In spite of the reforms going on in the sector, unwholesome practices have continued to pervade the industry since 1999 to date. Massive tax evasion was reported in 2005 where Chevron Group of Companies evaded petroleum profit tax to the tune of $994 million between 2003 and 2004, through fraudulent inflation of its operations cost perhaps with the connivance of officials in government owned oil corporation (Aghalino, 2007). So much lip service is being paid to transparency by government such that it may take quite some time for meaningful reform to take place. It appears as if the old pattern of oil block allocation is still in place with so much politics surrounding it, as well as poor reporting and rendering of account on oil revenue accruing to government. The delay in the passage of Petroleum Industry Bill (PIB) by the parliament appears to be impeding investments in the industry and also responsible for the withdrawal of some international oil companies from previous commitments in the sector such as Liquefied Natural Gas Projects in Brass and Olokola.

Deregulation of the sector has not been successful due to likely short-term negative effects on the populace which has prompted resistance from the civil society to any move by government to increase prices of petroleum products. Thus the success of reforms in the petroleum sector depends largely on the determination of government to implement such reforms and the willingness of the populace to partner with government in this direction.

4.8 Public Sector Reforms

Since the return of democratic rule in 1999, there have been considerable reform efforts in the public sector. The Debt Management Office (DMO) was set up as an institutional framework for more transparent management of domestic and foreign debts. Prior to the establishment of DMO, more than

25 percent of the yearly budget was spent on debt servicing, even though total indebtedness was largely unknown (Ignite, 2013). Through debt restructuring deals in 2000 and a debt relief deal in 2005, Nigeria was able to secure debt relief that eliminated about $18 billion of debt in exchange for $12 billion in payments. Pension reforms have also boosted the pension industry with over 5.6 million contributors and investible assets of over N3.5 trillion amounting to 80 percent of the 2013 national budget (Anaesoronye, 2013).

Several reforms have been undertaken in the Federal Civil Service in order to institute transparency and enhance productivity. The Due Process Compliance (DPC) principle was introduced in 2001 to provide clear guidelines and processes for procurement and contracting in the civil service. The framework of guidelines on planning and budgeting, contract award processing, and project governance, was reputed to have saved the federal government several billions of Naira through project cost reduction. Again, the Bureau of Public Procurement (BPP) established by the Public Procurement Act 2007 has saved the nation over N530 billion by its interventions in inflated contracts, as at the end of 2013 (Ehikioya, 2013). The reforms have been further consolidated by the Fiscal Responsibility (Establishment) Commission Act 2007 that instituted a Commission to enforce fiscal prudence, sound financial practice, transparency and accountability in the management of public funds.

Reforms have also been carried out in public utilities through the privatization of power generating and distribution companies as well as development of public-private partnerships in some areas such as roads and airport terminals. There has been progressive de-subsidization of petroleum products. The most current was the partial withdrawal of subsidy from some petroleum products in 2012 which generated huge protests across the nation. The government had to establish a Subsidy Reinvestment and Empowerment Program (SURE-P) to ensure the proceeds are utilized in a transparent manner for the benefit of the citizens. The program is meant to create jobs, empower citizens, and improve transportation and health care. There have also been efforts to increase transparency in the management of petroleum products subsidies. The major problems with these reforms so far pertain to policy instability and lack of government commitment to faithfully implement the reforms. There have been difficulties in consensus building around some of the reforms in the fiscal and energy sectors, while subsidy removal has been resisted.

4.9 Macroeconomic Policies

Since 1970 the macroeconomic policy environment in Nigeria has been mostly characterized by fiscal, monetary, exchange rate, and trade policies. Fiscal policy is usually directed at providing adequate revenue for government, rationalizing government spending, as well as curtailing growth of aggregate expenditure in the economy. The policy has not performed well in the area of revenue generation, bearing in mind that the country depends largely on oil export, which accounts for over 80 percent of total government revenue. Instead of rationalizing government spending, its expansionary tendency has generated huge and irrational expenditure that spurs inflation in the economy. Fiscal policy was also used to encourage external borrowing, leading to an excruciating external debt burden on the country for almost three decades. The borrowing was not restricted to external source only, as huge sums of domestic debt were also accumulated to sustain fiscal expansion, such that fiscal deficit/GDP ratio remained considerable for several years especially in the 1980s.

Monetary policy was essentially used to contain the effect of expansionary fiscal policy and was largely passive for a considerable period of time. It only became somewhat active from the year 2000, when rapid fiscal expansion started to abate. The emphasis of monetary policy was then shifted to the use of open market operation which proved to be more flexible and useful in monetary management. In spite of this shift, aggregate supply of money in the economy has continued to grow, exerting upward pressure on price level. This is not peculiar to Nigeria, as most African countries are also characterized by rapid growth in money supply and its consequence on price level.

Exchange rate policy has been mostly directed at stabilizing the value of domestic currency, maintaining reasonable level of external reserve, and enhancing price level stability. Prior to 1986, the fixed exchange rate policy was in operation, but it resulted in overvalued domestic currency that discouraged trade and lowered economic growth. In fact, no country is known to have successfully expanded its export trade with an overvalued domestic currency (Tsikata, 2000). The fixed exchange rate policy was changed to floating policy which operated until 1993. In 1994, the fixed exchange rate policy was re-introduced, but modified again in 1995 as guided exchange rate policy. Since then this policy has been in operation, and the Central Bank is guiding it by intervention, to ensure that domestic currency does not depreciate to the extent of causing significant increase in price level.

Trade policy has been used mainly to curtail dumping of inferior goods and importation of harmful items into the country, as well as to protect local manufacturing industries from stiff external competition. It is also applied to raise revenue which is used to augment that from export of petroleum in the fiscal operations of the state. More importantly, trade policy has also been directed at improving external trade balance and reserve position of the country, which is crucial for sustaining the pace of economic growth and development. Trade policy instruments include import quota, import prohibition, tariff structure, etc.

Table 8: Selected Economic Indicators of the Nigerian Economy

Year	Fiscal balance (%of GDP)	Minimum Rediscount Rate/Monetary Policy rate	Average AFEM Exchange rate (N/$)	Trade balance (% of GDP)
1970	-8.6	4.5	0.71	2.3
1972	-0.8	4.5	0.66	5.8
1974	9.5	4.5	0.63	21.6
1976	-4.1	3.5	0.63	5.9
1978	-8.2	5.0	0.61	-6.0
1980	-3.9	6.0	0.55	10.0
1982	-12.4	8.0	0.67	-5.0
1984	-4.5	10.0	0.76	3.0
1986	-11.9	10.0	2.02	4.0
1988	-8.7	12.8	4.54	6.7
1990	-8.3	18.5	8.04	24.6
1992	-7.4	17.5	17.03	11.2
1994	-7.8	13.5	21.89	4.7
1996	1.2	13.5	81.25	27.3
1998	-4.9	13.5	83.81	-3.1
2000	-2.3	14.0	100.80	20.3
2002	-4.4	16.5	126.26	2.5
2004	-1.5	15.0	132.37	16.3
2006	-0.6	10.0	128.28	17.7
2008	-0.2	9.75	121.90	18.5
2010	-7.4	6.25	155.77	4.2
2012	2.4	12.0	158.76	7.7

Sources: Central Bank of Nigeria Statistical Bulletin (2008) and National Planning Commission Performance Report on the Nigerian Economy (2012).

The trends of macroeconomic policies are reflected in table 3 where fiscal policy is characterized by deficit for virtually the entire period with implications on price stability. The monetary policy stance is indicated by the Rediscount/monetary policy rate which increased from 4.5 percent in 1970 to 12.0 percent in 2012. The policy has tended to be more restrictive as a means of containing the inflation pressure from fiscal policy. The exchange rate policy represented by the average Autonomous Foreign Exchange Market (AFEM) rate shows a relatively fixed exchange rate before 1986. Thereafter, the floating/guided exchange rate policy came into operation resulting in considerable depreciation of the domestic currency. Trade policy coupled with the high demand for petroleum export has been quite effective in sustaining favourable trade balance for a very large part of the period 1970-2012.

The core macroeconomic policies were extensively used in the implementation of the structural adjustment program (SAP) in the pursuit of set goals of liberalization, deregulation, devaluation, privatization and commercialization, de-subsidization and state contraction. The policies were somewhat effective to the extent that SAP made gains in terms of increased revenues, agricultural exports and international credit worthiness, though there were negative consequences such as increase in unemployment, inflation and interest rates (Obadan and Edo, 2008). With the paradigm shift to private sector led growth and development encapsulated in the economic reform program of the country, government has been using macroeconomic policies to provide enabling and conducive environment for private sector driven development.

4.10 Macroeconomic Performance

Over the years, several development plans and strategies were initiated aimed at facilitating rapid economic growth, appreciable reduction in poverty, and improvement in standard of living. The economy witnessed some growth except in periods of political and economic crises that the nation had to grapple with, such as the civil war of 1967–70 and global economic crisis of early 1980s. But the growth has been grossly inadequate to significantly reduce poverty and enhance welfare of the majority of the citizens. This tends to suggest poor performance of the various plans and strategies.

In the first decade after political independence in 1960, the leading source of growth was agriculture which accounted for about two-thirds of GDP and labour employment, substantial supply of raw materials for industries, and the largest proportion of non-oil export. During this decade, the first national development plan (1962 – 68) was formulated and implemented and was characterized by state participation in economic activities. Specifically, there was rapid expansion in general economic activity, but the momentum of growth weakened by 1964 such that the political crisis which began in 1966 only fuelled an already deteriorating situation. In spite of the deterioration, the civil war period of 1967–70 recorded an impressive average GDP growth rate of 10.9 per cent, due mainly to the remarkable recovery of economic activity towards the end of the civil war, when real growth rates of 30.5 per cent occurred in 1969 and 29.6 per cent in 1970. Overall, the average growth rate for 1960 – 70 was only 5.1 percent.

The decade of 1970s marked a turning point in the Nigerian economy and its growth performance. The main source of growth changed from agriculture to crude oil which then became the major contributor to GDP, government revenue and foreign exchange earnings. The share of oil in exports jumped from 57.6 percent in 1970 to 96.1 percent in 1980, while its share in government revenue increased from 26.3 percent in 1970 to 81.4 percent in 1979. As crude oil earnings rose and eased the financial constraint on development, government became the prime mover of the economy. The positive impact of oil resulted in an average GDP growth rate of 7.9 percent, which was much higher than the 5.1 percent recorded in the previous decade. However, the economic prosperity of this period was mismanaged, causing radical changes in production and consumption patterns with grave implications for long-term economic growth.

The early 1980s witnessed a rapid deceleration of real GDP growth rate caused by devastating shocks from the global economic environment, such as recession, declining commodity prices (especially the collapse of crude oil prices), increase in protectionism by the developed economies, and declining capital inflow. The collapse of crude oil prices adversely affected the nation's revenue and hence the collapse of the Fourth National Development Plan (1981 – 85). The weak oil prices also gave rise to large fiscal deficits, huge current account deficits, and rapid depletion of foreign reserves. This led to massive external borrowing to fill the resource gap created by the oil market shock, and consequently the accumulation of external debt and its burden on the economy (Edo, 2002). The net effect of the crisis on GDP was devastating as negative growth rate of -3.9 percent was recorded for the period 1981 – 84, as well as sharp decline in living standard of the citizens. However, the introduction of SAP in 1986 brought some improvement to GDP growth rate, which averaged 6.3 per cent in the period 1986 – 90.

In the 1990s and early 2000s, the growth performance of the economy, although positive remained weak. The economic growth rate which averaged 3.5 per cent over the period 1990 – 2003 is very low in relation to targets, particularly the Vision 2010 target of not less than 10.0 per cent per annum. It is also low in relation to the minimum 6–7 per cent required to reduce poverty by half towards the year 2015. Even with the extra-ordinary growth rate of 10.2 per cent reported for 2003, due to the change in the base year from 1984 to 1990, the average growth rate for 1999 – 2003 was only 4.9 percent. The subsequent years of 2004 and 2005 recorded growth rates of 6.6 percent and 6.2 percent, respectively, which were considerable improvements on the growth performance of the 1990s, but were still relatively low and incapable of alleviating poverty. The growth rate remained relatively impressive throughout the 2000s but the incidence of poverty remained high at over 50 per cent.

In the period 2010-2012, the real GDP growth largely driven by non-oil activities averaged 7.01 percent and stood at 6.8 percent in the first quarter of 2013. However, unemployment deteriorated and increased from 21.1 percent in 2010 to 27.4 percent in 2012 and poverty appeared to have escalated. The pertinent challenge then is to achieve and sustain high growth rates as well as translate such growth rates into poverty reduction and increased employment opportunities to ensure that the majority of the people reap the benefits of growth.

In summary, it is very obvious that the growth performance of the economy and its key sectors was most outstanding in the decade of 1970 – 80, as a result of the oil boom. However, the Nigerian economy is yet to achieve consistent and impressive growth rates that could substantially generate employment opportunities and reduce the level of poverty. The NEEDS document of 2004 acknowledges that annual growth rate in Nigeria which averaged less than 3.0 per cent for the period 1960 – 2003 has been disappointing compared to some of the world's fastest growing economies with growth rates of 8 - 10 percent per annum.

CHAPTER 5

EMERGING TRENDS

5.1 Development Planning and Outcomes

The fixed medium-term development planning system which was adopted after independence in 1960 was not sufficiently flexible to accommodate unexpected changes in economic fundamentals and was subsequently abandoned in 1986 following the introduction of SAP which was more flexible and adjustable to cope with economic realities. The new trend has therefore revolved around planning frameworks with some elements of flexibility hence medium-term plan was reintroduced after SAP as Rolling Plans between 1990 and 2003 during which about twelve plans were rolled over annually to take care of unexpected changes. The Rolling Plan was replaced in 2004 with National Economic Empowerment and Development Strategy (NEEDS) 1 and 11, fashioned after the Poverty Reduction Strategy Papers (PRSP) from the Bretton Woods institutions which was adopted by several developing countries mostly in Africa. The current development framework (Vision 20:2020) integrates medium term plan with long-term plan in order to enhance flexibility in plan implementation towards achieving the Millennium Development Goals (MDGs).

The possibility of adjusting plan implementation as dictated by changes in crude oil price may have contributed in no small measure to enhance the performance of the economy under NEEDS (2004-2007) as shown in Table 9, although the challenges of unemployment and infrastructure deficits subsisted. The economy witnessed impressive and stable growth rate, moderate inflation rate, lower fiscal deficit, substantial increase in external reserves, and rise in national savings.

Table 9: Performance of the Nigeria Economy under NEEDS

Selected indicators	2004		2005		2006	
	Target	Actual	Target	Actual	Target	Actual
<u>Macroeconomics</u>						
Growth in real GDP	5.0	6.5	6.0	6.2	6.0	n.a
(%)	14.1	18.4	17.2	19.4	23.9	
Gross national savings	5.0	n.a	5.0	n.a	5.0	
(% of GDP)	10.0	10.0	9.5	11.6	9.5	
Reduction in poverty	1.0	n.a	2.0	n.a	20.0	
incidence (%)						
Inflation rate (%)						
Minimum number of	-1.9	-1.5	-3.2	-1.1	-3.2	n.a
new jobs (mn)	23.5	12.5	23.4	12.5	22.9	
	65.0	72.4	60.0	69.2	60.0	
<u>Federal Govt. Finance</u>						
Overall fiscal balance						
(% of GDP)						
Total expenditure (%	-10.8	9.6	-9.2	9.3	-4.4	n.a
of GDP)	-2.9	17.7	-2.3	22.8	-0.5	
Recurrent expenditure	7,687	16,950	8,687	28,279	9,687	
(% of total budget)	15.0	-4.4	18.0	13.8	25.0	
	10.0	49.1	20.0	36.6	25.0	
<u>External sector</u>						
Overall BOP (% of						
GDP)	24.5	12.0	24.6	-14.5	22.5	n.a
Current account	29.9	-17.9	29.9	37.0	23.5	
balance (% of GDP)	30.0	26.6	30.0	30.8	30.0	
External reserves ($m)	10.8	8.6	8.3	15.5	16.7	
Growth in imports (%)	15.0	14.0	15.5	16.0	15.5	
Growth in exports (%)						
<u>Financial Sector</u>	4,000	2,765	5,000	2,687	7,000	n.a
<u>Growth (%)</u>						
Net domestic credit	3,500	n.a	3,500	n.a	4,000	
Net credit to						
Government.						
Credit to private sector						

Narrow money. (M_1)	
Broad money (M_2)	
<u>Infrastructure</u>	
Power generation (megawatt)	
Roads(rehabilitation, maintenance and new roads) (km)	

Source: National Planning Commission, Abuja (NEEDS Document); Central Bank of Nigeria Annual Reports 2004-2006.

The current long term framework of development (Vision 20:2020) which is being implemented and adjusted through medium-term implementation plan has tended to produce positive outcomes in major economic indicators as shown in Table 10. Thus the recent trend which makes development planning more flexible and accommodating represents a shift in paradigm from fixed and rigid planning process that has proved somewhat ineffective in facilitating rapid development.

Table 10: Performance Indicators in First Implementation Plan of Vision 20:2020 (2010-2013)

Indicator/Year	2010	2011	2012	2013*
Real GDP Growth rate	7.9	7.4	6.6	6.8
Per capita GDP ($)	1,420	1,483	1,526	1,638
Growth rate of manufacturing sector (%)	7.51	7.47	7.51	-
Inflation rate (%)	13.6	10.3	12.0	8.6
External reserve ($'bn)	32.3	32.6	44.2	48.6
Foreign Direct investment ($'bn)	6.2	8.9	7.1	-
Gross capital formation (% of GDP)	11.8	10.6	7.7	-
Stock market capitalization (N'trn)	7.6	8.7	14.4	16.4
Life expectancy	48.17	48.4	51.9	
Unemployment rate	21.1	23.9	27.4	-

* Figures are for first quarter of 2013

Source: Mid-term Report of Transformation Agenda 2011-2013, National Planning Commission Performance report on the Nigerian Economy (2012)2, and Central Bank of Nigeria Statistical Bulletin (2011)

5.2 Management of the Economy

The economy is currently managed by a competent team under the minister of Finance who is the coordinating minister of the economy. There have been attempts at strengthening fiscal discipline and consolidating monetary policy stance toward achieving macroeconomic goals. However, economic management is still underpinned by inefficient allocation of resources, low capital budget ratio, extremely high cost of governance and corruption. Expansionary budgets have been ineffective in delivering growth and employment. The allocation and application of resources for growth and development is still poor and inefficient. There is poor governance indicated by pervasive corruption, poor policy outcomes and weak institutional capacity. Nigeria was rated 134 out of 178 countries in 2010 and 143 out of 183 countries in 2011 using the corruption per capita index (African Development Bank 2013). The Transparency International Corruption Index also ranked the country 90 out of 91 in 2001, 101 out of 102 in 2002, 132 out of 133 in 2003 and 144 out of 145 in 2004 (Enweremadu, 2010). It was thus consistently the second most corrupt country in the world. The rating marginally improved to 142 out of 179 in 2006, 147 out of 180 in 2007 and 121 out of 180 in 2008. Nigeria's level of transparency and accountability in resource governance also places it at the bottom in the global ranking by the Resource Governance Index.

The country's budget spending is high and unsustainable given the instability of global oil prices. In fact, Nigeria has a very poor record in the management of its oil and gas resources. For several decades, the nation has been unable to utilize its huge oil revenues to transform the economy. Over $400 billion earned from crude oil sales have amounted to so little in terms of real growth and development.

The indications of management deficiencies in the economy and public sector include lack of discipline and commitment, extra budgetary expenditures, cost overruns, execution of non-planned programs, ad hoc approaches, instability and inconsistency in policy and actions, disregard for due processes, fiscal imprudence and waste. The elaborate plans, policies and reforms do not seem to have addressed or placed adequate focus on certain critical issues.

There seems to be deficiency in the sequencing of policies. For example, government ought to concentrate on providing adequate infrastructure, energy and security that would bring in investments and reduce costs of production before canvassing for foreign investment inflow. Enough effort and commitment do not seem to have been devoted to strengthening linkages in the economy, as backward and forward linkages are still poor. There is still emphasis on the export of primary products rather than export of processed commodities and refined products such as petroleum products. The price fluctuations that afflict the economies of developing countries are not in processed goods but those of primary products. Furthermore, attention seems to have focused on the production of consumable goods and services, rather than capital goods. Public debt has been growing steadily which call for some precautions, even though the public debt as a percentage to GDP seems reasonable at 19 percent as at 2011. The primary export and import dependent nature of the economy needs a more guided foreign exchange market to avoid rapid depreciation of the local currency.

5.3 Consolidation of Reforms

Since 2000, there have been consolidations of market oriented reforms such as the modernization of the banking system and subsidy removals. There have also been a strong fiscal consolidation stance and tight monetary policy aimed at controlling fiscal deficit to 3 percent of GDP, rebuild fiscal buffers, restrict recurrent spending and improve non-oil sector revenues. These have led to reduction of fiscal deficit to below 3 percent of GDP and inflation to 12 percent as at 2012 (African Economic Outlook 2013). The Central Bank Monetary Policy Committee has sought to mitigate fiscal expansionary risk and curb pressures on the foreign exchange rate. The current monetary policy rate of 12 percent has been maintained for the 12th consecutive month (Business day, 2013). The public debt is being controlled, and is now being tied to specific infrastructure projects. For example, a recent $1.1 billion approved loan from China is tied to hydroelectric power plant in Zungeru and light rail in Abuja (Ignite 2013).

There have been efforts to redress the huge structural defects in resource allocation particularly in the dominance of recurrent costs in the budget that was 53 percent on average, as compared to 29 percent for capital expenditure for the period 2008 – 2011. The capital expenditure budget has made gains in the 2012 and 2013 budgets. Thus necessary structural budget adjustment has been instituted to stimulate development.

There is a current effort at development of the agriculture sector, which includes modernization of agriculture, innovation and enlightenment of farmers, through a farmers' phone project, the development of staple-crop processing such as rice, and efforts to link the agricultural sector to the manufacturing sector. Current policy efforts have also focused on commercial agriculture and agribusiness. The emerging success in the sector is indicated by the growth of domestic food supply by over 9 million metric tons in 2012/2013, about 80 percent higher than the annual target of 5 million metric tons. Agricultural exports expanded by 822, 000 metric tons in 2012. Non-oil exports expanded by N759 billion, while food imports declined by N857 billion (Asu, 2013).

5.4 Growth and Development

Since 2000, the economy has been fairly and consistently on the growth path and the GDP has been in an upward swing. The real GDP has grown considerably from N329.2 billion in 2000 to N775.5 billion in 2010. It has been more consistently in the path of growth, as compared to the preceding period 1980 – 1999. Thus the growth rate per annum which was below 5 percent in 1995-1999 has since increased and fluctuated within the range of 5.3 -10.3 percent in the period 2000-2012. It grew at 6.6 percent in the first quarter of 2013 and 6.2 percent in the second quarter.

Purchasing Power Parity GDP increased from $391.9 billion in 2010 to $450.5 billion in 2012, while the PPP GDP per capita rose from $2,500 in 2010 to $2,700 in 2012. The Nigerian economy is ranked 30th in Purchasing Power Parity measured GDP in the world. In farm output, it is 25th in the world and 1st in Africa while it is 63rd in service output in the world and 5th in Africa (African Development Bank 2013).Going by the GDP measure, the economic outlook seems to be bright. In fact, economic growth has been quite robust for over a decade, with GDP growth rate averaging about 7.5 percent annually.

Foreign trade in second quarter of 2013 grew by 4.8 percent to N5.3 trillion as compared to the preceding quarter, exports increased by 8.4 percent to N3.74 trillion, and imports decreased by 2.9 percent to N1.59 trillion. The value of total merchandize trade was N20.9 trillion in 2012. Both oil and non-oil exports increased and enhanced the country's surplus trade balance by 18.8 percent to N2.14 trillion between the first and second quarters of 2012 (Business day, 2013).

There has been stability in the major economic indicators, such as inflation rate, GDP growth rate and currency exchange rates. Annual inflation rate which rose astronomically to 72.8 percent in 1995, declined to 12.2

percent in 2012 and 8.2 percent in August 2013, the lowest rate since April 2008. Prices of agricultural products declined from 13.1 percent in January to 10.2 percent in December 2012. The general performance of the economy between 2000 and 2011 is reported in table 11.

Table 11: Nigeria: Selected Economic Indicators

INDICATORS	2000	2008	2009	2010	2011
GNI per capital (Atlas) method current	270	-	1,190	1,180	-
US $)	46,386	-	168,5	202,51	241
GDP (current million US $)	6.3	-	87.0	3	,51
GDP annual Growth %	3.8	-	4.3	7.8	7
Per Capital GDP growth % annual	20.4	-	12.1	5.2	6.7
Gross Domestic Investment (% of GDP)	6.9	-	12.5	13.6	4.0
Inflation (annual %)	18.8	-	2.8	13.7	13.
Export Growth (Volume %)	-21.4	-	1.4	2.4	6
Import Growth (Volume %)	1,310		8,650	49.0	10.
Foreign Direct Investment Inflows (million	385.2	4,	5,763.	6,099	2
US $)		118.2	5	-	-2.5
* National Savings (₦ billion)	331.1				-7.3
* Gross fixed capital formation	42.9	2,050.8	3,048.	4,007.8	-
(GFCF)(Exp. on fixed assets, current		6.0	0	31.5	-
purchases value N billion			48.6		-
* % change in GFCF					-

Source: AFRICAN DEVELOPMENT BANK Statistics Department, May 2012, Security & Exchange Commission (2010) Nigerian Capital Statistical Bulletin

The country has considerable financial resources with earnings of about $57 billion per year. The foreign reserve was $43.3 billion in 2010, $36.5 billion in August 2012 and $45.7 billion in November 2012. As at the second quarter of 2013, the foreign reserve stood at about $48.3 billion, while the excess crude oil account meant to cushion against external oil price shocks was $10 billion. There is also a sizable amount in a sovereign wealth account (Ignite, 2013). External debt was $9.7 billion in 2009 but rose to $10.1 billion in December 2012. The public debt was estimated at 17.8 percent of GDP in 2011 and 18.8 percent in 2012. Taxes and other revenues were 8.6 percent of GDP in 2012.

The Telecommunications sector is among the fastest growing in the world. Total foreign direct investment inflow of $8.9 billion in 2011 represented 20 percent of total FDI to Africa. Amongst the 28 Sub-Saharan African Countries, Nigeria had the highest FDI for 2010 ($6.10b), 2011 ($8.92b) and 2012 ($7.03b) followed by Mozambique, South Africa, Democratic Republic of Congo and Ghana (UNCTAD 2013). Table 13 shows the FDI inflows to the Next 11 countries. Nigeria is now listed among the Next Eleven (N-11) nations with potentials to be the World's largest economies and attaining global competitiveness by the 21st century according to Goldman Sachs. The economy is about the 40th largest in the world.

The current Standard and Poor's rating of the Nigerian economy is BB minus, and indicates that the economy is strong, with strong macro-economic indicators and stable GDP growth outlook through 2013 to 2016 The International Monetary Fund 2012 Article IV Consultation, concluded in February 2013, indicates that Nigeria's macroeconomic performance has been broadly positive over the past year and that prudent macroeconomic policies have underpinned a strong economic performance in recent years (International Monetary Fund, 2013). As a mark of confidence in the economy, Nigeria's issuance of $1billion Eurobond in July 2013 was over-subscribed by 300 percent, attracting over $4 billion bids, with yield of 5.4 percent for $500 million 5-year bond and 6.6 percent for $500 million 10-year bond.

Table 12: FDI Inflows for NEXT (N–11) Countries 2010 – 2012 ($'bn)

S/N	Country	2010	2011	2012
1	Indonesia	13.77	19.24	19.85
2	Mexico	21.37	21.50	12.66
3	Turkey	9.04	16.05	12.42
4	South Korea	10.11	10.25	9.91

5	Vietnam	8.00	7.43	8.37
6	Nigeria	6.10	8.92	7.03
7	Iran	3.65	4.15	4.87
8	Egypt	6.39	-4.83	2.80
9	Philippines	1.30	1.82	2.80
10	Bangladesh	0.913	1.14	0.990
11	Pakistan	2.02	1.33	0.847

Source: UNCTAD World Investment Report 2013

However, the fortune of the economy is tied to the vagaries of the world crude oil market. Thus when major decline occurred in crude oil price in the early 1980s, the economy was immersed in serious crisis and GDP per capita declined by 4.8 percent between 1980 and 1987. Similarly, periods of crude oil boom are associated with relative economic growth. The rise in crude oil prices following the Gulf crisis in the 1990s drove GDP growth rates upward. The rise of crude oil prices since 1999 has also been associated with economy growth. Agriculture is also plagued by changing export prices, fluctuations in climatic conditions and flooding. The critical question then is can the current growth be sustained if there is a major challenge in the global energy market? Is it possible that the current gains could be wiped off in the event of an oil glut or collapse in oil prices, or even a major climatic change that undermines agriculture?

CHAPTER 6

PROSPECTS OF THE ECONOMY

6.1 Economic outlook 2013 – 2016

The economy of Nigeria is said to be strong and vibrant and the outlook for growth remains positive (African Development Bank, 2013; National Bureau of Statistics, 2013). Productive base is gradually improving, and the economy is projected to follow a steady growth pattern until 2016. In the context of stable internal and external environment, and monetary stability, real GDP and merchandise trade values are expected to rise, while inflation is expected to remain at single digit until the fourth quarter of 2016. More specifically, GDP growth is expected to be consistent at an average of 6.9 percent for 2013 – 2016 while total merchandize trade is expected to grow at an average of about 23 percent in the period 2014-2016. Inflation is projected to be maintained at about 9.7 percent (Table 13). There is a low risk of debt distress, with a total Debt Stock to GDP ratio of 19 percent by September 2012.

Table 13:Nigeria's Historical and Projected Annual Growth Rates

Year	Real GDP (%)	Trade (%)	Inflation (%)
2008	5.98	16.88	11.98
2009	6.96	-3.00	11.97
2010	7.98	57.49	13.57
2011	7.43	47.87	10.91
2012	6.61	-11.57	11.98
2013*	6.75	-11.94	9.76
2014*	7.27	25.09	9.49
2015*	6.93	23.00	9.76
2016*	6.62	21.23	9.95

* Forecast values

Source: National Bureau of Statistics (2013) Economic Outlook for the Nigerian Economy 2013 – 2016

The pursuit of macro-economic stability and current reforms in the energy and agricultural sectors are expected to drive fairly high growth rates in these sectors and consequently enhance favourable balance of trade position beyond 2013.

6.2 Prospects of Enduring Growth

The economy is predominantly primary product oriented and based on agriculture and crude oil. This makes public finances and balance of payments vulnerable to crude oil and gas price fluctuations. Agriculture which is the dominant sectoral contributor to the GDP is dependent on climatic changes and its effects. For example, the 2011-2012 floods caused huge losses in farm output. In spite of the current growth in agricultural production, over 50 percent of cultivable land remains uncultivated and over 90 percent of farmers are aging, using obsolete tools and cultivating small holdings. Agricultural productivity is therefore still low and lacks modernization which may unfavourably affect growth of the economy.

The contribution of the Petroleum sector has been on the decline for the past two years. There are serious risks of crude oil instability, particularly large price drops. The economic position of the United States that imports about 40 percent of crude oil would continue to have huge effects on Nigeria's economy. There are also threats to oil infrastructure by vandals and dissident militants, and the depletion of crude oil production through large scale theft by syndicates in Nigeria and abroad.

The business environment is weak just as the manufacturing sector is performing below capacity. The capacity utilization in the manufacturing sector is currently within 30 – 40 percent, indicating a very critical state of capacity under-utilization. In spite of economic prospects, Nigeria in 2013 was ranked 120 in the world, and 21 out of 46 in Sub-Saharan Africa, using the Index of Economic Freedom. This denotes not just the poor environment for investment and growth, but the lack of competitiveness and efficiency in the economy. The economy is still largely import dependent and the fate of China, the major source of imports, could determine the nation's economic fortune. Current growth is only mostly reflected in macro- economic indicators. The prospects of continuous growth depend on how well some fundamental issues are addressed. The issues of infrastructure deficits and poor energy generation are fundamental to the economic growth of the country. These issues need to be given priority attention in order to achieve sustainable agricultural growth that is linked to the industries, diversification and growth in the non-oil sector, as well as investment and growth in the industrial sector, particularly the manufacturing sub-sector.

6.3 Current Growth Features

The nature of emerging growth of the economy needs to be critically examined particularly in relation to production, development and well-being of citizens.

Economic Growth without Production

Economic growth has been distorted as it has not been associated with real productive activities and contributions to trade and exports. For example, the Nigerian economy's contribution to trade within Economic Community of West African States (ECOWAS) is only about 10 percent, because of poor export capacity or economic linkages with the region. Only 12.4 percent of Nigeria's daily crude oil production is consumed locally, which denote the underdevelopment of the Nigerian economy. Though the country is about the 12th largest producer of crude oil, about three quarters of its domestic consumption of petroleum products is still imported.

Petroleum revenues drive the Nigerian economy and drives over-bloated and expansionary budgets and corruption. Crude oil price that rose from $13 per barrel to $125 per barrel between 2000 and 2009, drove the annual budget from N470 billion to N2.7

trillion. The Nigerian State has consistently failed to use oil and gas revenues to drive broad development, diversify the economy and enhance industrialization.

Growth without Development

The lack of structural linkages of the oil and gas sector to the economy, the capital intensive nature of the oil and gas sector, and the lack of diversification of the economy have limited the impact of the sector on growth as well as the impact of overall economic growth on poverty and human development. Though there is somewhat statistical growth as indicated by growth rates, it has not impacted on job creation, infrastructure improvements, and improvements in the livelihoods and overall well-being of citizens.

Thus the macro economic growth has had little benefits. The economic growth is an enclave situation, with narrow rather than broad base. The growth is not inclusive as it excludes the ordinary people or has not reached them. As the President of the Lagos Chamber of Commerce and Industry (LCCI) recently stated, the challenge over the decades has been how to make the opportunities and the potentials of the economy work for the people (Owonibi, 2013).

Poor Development Indicators

The African Development Bank (2013) provides an elaborate analysis of development indicators in Nigeria. Poverty is still extensive and the economic growth since 2000 has not translated into poverty reduction. The percentage of those living below the poverty line was 70 percent in 2000 and 54 percent in 2004. Unemployment increased from 21 percent in 2010 to 24 percent in 2011. Among the youth, unemployment is a frightening 50 percent and in fact the 15-35 year old cohort account for almost two thirds of unemployment.

Socio-economic conditions are frustrating in Nigeria with about 63 percent of the population currently living below the poverty line of $1 per day. About 42 percent lack access to safe drinking water and 69 percent lack access to basic sanitation. Literacy level is 61.3 percent while life expectancy is below 50 years as at 2011. As Table 14 indicates that life expectancy, school enrolment and access to critical services are worse than the African and developing countries' average.

Table 14: Nigeria: Selected Development Indicators

S/N	Indicators	NIGERIA		Africa	Developing Countries
		1990	2011	2011	2011
1	Population Growth (millions)	2.5	2.5	2.3	1.3
2	Life Expectancy at birth total years	45.6	48.4	57.7	77.7
3	Mortality rate (infant) per 1000 live	126.8	89.9	76.0	44.7
4	Physicians per 100,000 people	-	39.5	57.8	112.0
5	Births attended by skilled health staff (% of total)	33.0	38.9	53.7	65.3
6	School enrolment (primary) (% gross)	84.8	83.3	101.4	107.8
7	Literacy rate, adult total (% of people 15 years and above)	-	61.3	67.0	80.3
8	Access to safe water (% of population)	47.0	58.0	65.7	863
9	Access to sanitation (% of population)	37.0		31.0	39.8
10	Human Poverty Index % of population	-		36.2	33.9

Source: African Development Bank, Statistics Department, May 2012

Nigeria's current generation of 4,000 megawatts of electricity is far less than the estimated demand of 10,000-12,000 megawatts, and about 55 percent of the population live without direct access to electricity while over 90 percent of industrial consumers own generators. About 42 percent of federal roads, 70 percent of state roads and 90 percent of local government roads are poor, failed or in disrepair. Internet users per 1000 of the population were only 0.6 in 2000, 281.7 in 2009 and 281.0 in 2010. Mobile cellular subscribers per 1000 were only 0.2 in 2000. Though it has increased tremendously, subscribers were still 482.4 per thousand in 2009 and 551.0 in 2010.

Thus GDP growth and growth rates are indicating progress, but the growth has not affected human development in terms of employment, life expectancy, literacy, education, mortality rate and standards of living.

6.4 Challenges Facing the Economy

There are serious inhibitions to economic growth. The quality of institutions and governance remain poor. Poor governance is a major challenge in both the public and private sectors. Private sector poor governance has been reflected in failures in the banking and financial service sector. There are indications that good governance is a pre-requisite for rapid economic growth and development, and that the quality of governance is tied to efficiency of investments, technical progress, efficient markets, economic outcomes and other conditions facilitating of growth Particularly, corruption and the lack of openness have been found to undermine efficient resource allocation. Given the pervasiveness of corruption and poor governance in the public and private sectors, the prospects of enduring and sustainable growth and development may be endangered.

There are serious infrastructure deficits and social service delivery inadequacy and decay. Transportation and logistics constitute major challenges to industries and commerce. Energy supply is currently less than 4000 megawatts. The infrastructure, social service and energy challenges create a burden on competitiveness. Domestic enterprises face problems of poor access and huge cost of funds as reflected in high cost of credit averaging about 30 percent to small and medium enterprises, and limited product offerings. There is poor market access because the economy has been virtually taken over by imports, which limits the capacity to generate the needed multiplier effects and jobs.

The contribution of the petroleum sector to total external trade has decreased because of the decline in crude oil production largely attributed to extensive crude oil theft, which is estimated to be between 10 – 30 percent of total crude oil production. Security issues relating to fundamentalist Islamic insurgency and terrorism have caused serious economic slowdown in the North Eastern and North Central regions. With a state of emergency in force in parts of the North-East, economic activities have been stalled. Security expenditure is now spiralling and consuming resources meant for development. About 20 percent of the 2012 and 13.6 percent of the 2013 budgets were committed or allocated to address security challenges. There are substantial threats to democracy indicated in violent and corrupt politics, while electoral processes are determined based on regional, religious, and ethnic differences. All of these have compounded short and mid- term risks in the economy.

6.5 Policy Options

To achieve sustained, broad based, inclusive, quality and sustainable economic growth and development, that is meaningful to the well-being of citizens, the following policy measures need to be undertaken:

i) Investment in critical infrastructure to drive the development of the real sector of the Economy, in the areas of transport, energy, agriculture and water supply.

ii) Governance and institutional reforms to strengthen policy making, implementation and tax administration.

iii) Reduction of shocks resulting from oil price instability by strengthening and consolidating the emerging growth in non-oil production and revenues.

iv) Better allocation and utilization of resources.

v) Strengthening fiscal discipline, financial management and accountability.

vi) Strengthening of good governance, reduction of the cost of governance and strengthening of political stability.

vii) Sustenance of policies and reforms, and particularly fiscal and monetary stance to provide stable economic policy framework.

viii) Integration of the petroleum industry into the domestic economy.

ix) More investments in appropriate technology and its adaptation and application to enhance competitiveness.

x) Improvements in the business environment and investment climate and enhancement of access to credit.

CHAPTER 7

CONCLUSION

The Nigerian economy which was characterized by poor growth performance arising from inadequate plan implementation and economic mismanagement since 1970 has in the last decade witnessed an upward turn following the return of democratic governance. The macroeconomic indicators have become strong and given the current policies of fiscal consolidation and tight monetary controls, the growth outlook could be stable up to 2016. However, there are major drawbacks. The efforts to diversify the economy and develop other sectors outside petroleum have met with failure since the 1990s and there have been massive mismanagement of huge oil revenues.

Though there are positive ratings and outlooks of growth, there are strong doubts about its sustainability, given the record of poor governance, the volatility of crude oil and agricultural production and pricing, and the risks posed by the inadequacies in infrastructure, energy, credit, security and political stability. Thus the economy clearly has potentials, but the capacity to harness them for sustained, optimal and efficient growth is what really matters.

There are questions about the kind of growth that has been fostered since the period of structural adjustment program, which has been unrelated to the well-being and human development of citizens. Several policy recommendations have been proffered to actualize the potentials of the economy, which include improvement in the governance of both public and private sectors by reducing the cost associated with corruption, such that funds are more optimally deployed to drive growth and development.

In spite of the numerous setbacks in economic growth there is still a basis for optimism that the economy can still be Africa's growth tiger considering its enormous human and natural resources. This has already started to manifest as the country is currently ranked as the fastest growing economy in Africa. Although several problems have been identified to be responsible for the economic predicament in the country, such problems are not immutable as they have been surmounted in several Asian countries. The economy can therefore rank among the top twenty in the world with time, but what cannot be clearly stated is the exact time it would take it to get there.

There are more reasons to believe that Nigeria can overcome the unimpressive growth performance of past decades. Certain reforms that are required to facilitate growth have been undertaken. The prospects now look better than they have been in the past decades. The economic reform measures have at least reduced the distortions that characterized policy decisions at the macro level, and the economy is more open now than it was before the reforms with vastly improved access to the world market. Private sector participation in the economy has increased appreciably as government continues to divest interest from business ventures. However, micro reforms have been quite slow, but progress is gradually been made, while public services and infrastructure need to be given more attention. The judicial system can be improved upon to make it effective and successful in enforcing laws. The extent to which these changes can be effected would depend largely on the pressure on government by civil society.

The ultimate and more critical concern is the extent to which political reforms can be carried out in order to entrench peace and stability in the country. Democratization has taken place and individuals can now express themselves within or outside political parties, although the process of democracy is beset with unhealthy rivalries and monumental corruption by political office holders. Sustained economic growth and development ultimately depend on the success or failure of democratic process and institutions in Nigeria.

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